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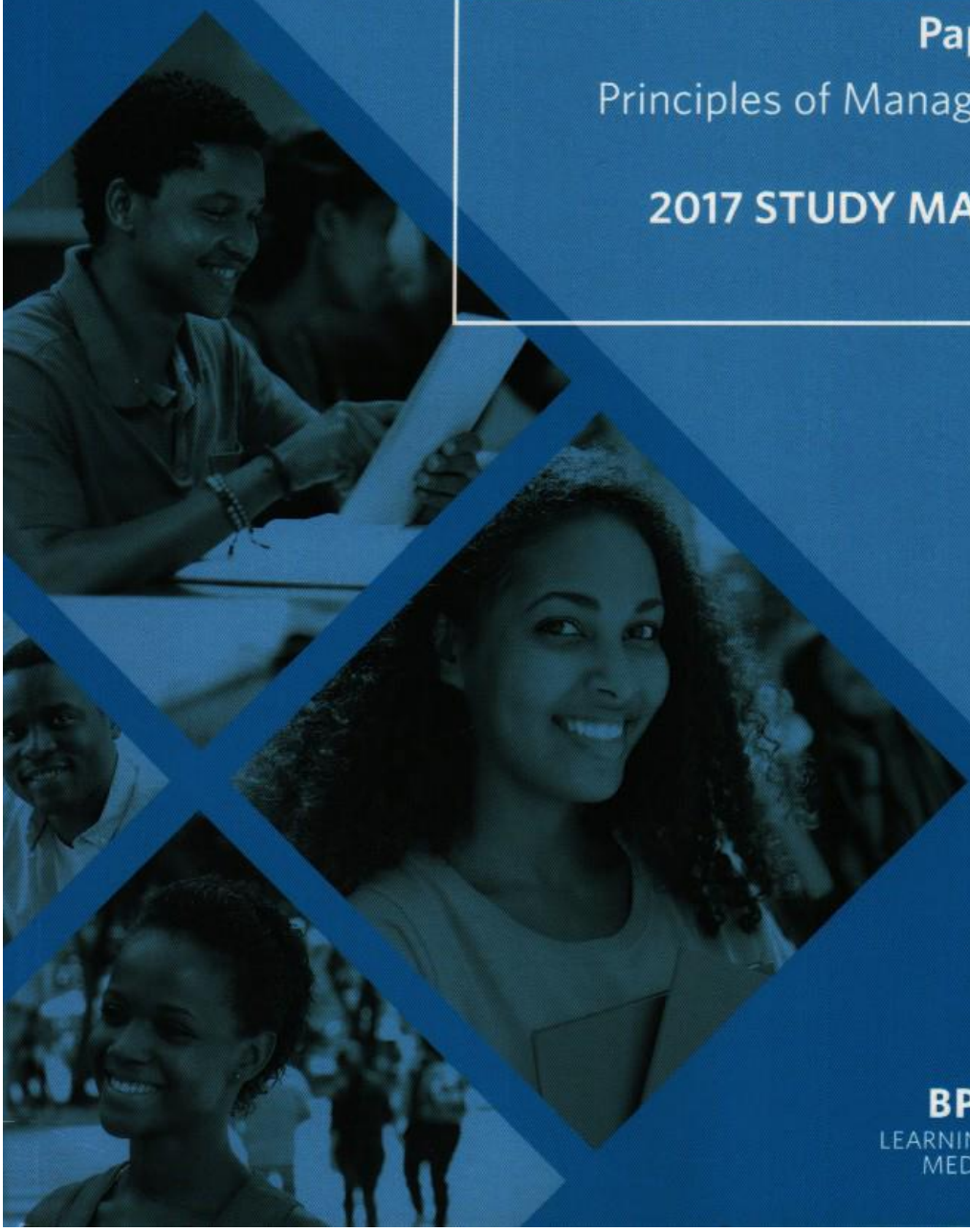

Paper D7

Principles of Management

2017 STUDY MANUAL

Level 1

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THEORIES OF MANAGEMENT, ORGANISATIONS AND STAKEHOLDERS

The examination is about the management of organisations. We begin this chapter by discussing the basic nature of management. In the opening sections we explore the basic skills required to be an effective manager, and a number of key theories of management.

We then move on to discuss the different types of business organisation that exist and describe what they are and how they differ from each other.

Business organisations have owners. They also have managers. Some organisations have just one owner or just one manager, who may also be the owner. Owners and managers are stakeholders of their business, because they have a personal interest or stake in what the business does. Businesses also have other stakeholders, such as employees. This chapter goes on to explain the meaning of 'stakeholders' and who they might be.

chapter 1

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LEARNING OBJECTIVES

- Define management and explain the role of the manager in an organisation (1A)
- Explain the management skills required by managers (1B)
- Describe the various theories of management (1C)
- Describe the different types of organisations and their characteristics (2A)
- Explain the benefits and limitations of each type of organisation (2B)
- Define a stakeholder and explain the various stakeholders of an organisation (2C)
- Small and medium-sized enterprises (2D)

1 Principles of management

Management is responsible for using the organisation's resources to meet its goals. In this section we look at the role of management and explore the concept of the universality of management principles popularised by Henri Fayol in his 1967 book *General and Industrial Management*.

MANAGEMENT may be defined, most simply, as 'getting things done through other people' (Stewart).

1.1 The manager's role in organising work

Managers have **key roles** in:

(a) work planning
(b) resource allocation, and
(c) project management.

Work planning

Work planning involves establishing work methods and practices to ensure that predetermined objectives are met. Planning involves the following.

(a) **Task sequencing** or **prioritisation**. Managers put tasks into an order of importance for achieving objectives and meeting deadlines.

(b) **Scheduling** or **timetabling tasks**. Tasks should then be allocated to individuals or project teams for completion within a given deadline.

(c) Establishing **checks and controls** to ensure that:

  (i) deadlines are being met and work is not falling behind schedule

  (ii) routine tasks are achieving their objectives.

(d) **Contingency plans**. Managers should make alternative plans to be used in circumstances where the unexpected happens. For example, an organisation may have a computer system failure or an unforeseen industrial action by employees which disturbs the course of the original plan. Contingency planning means having a 'Plan B' ready in case 'Plan A' does not work.

(e) **Co-ordinating** the efforts of individuals. Managers should integrate activities and schedules so that data and work flows smoothly from one stage of an operation to another.

Some jobs (for example, assembly line work) are entirely routine, and can be performed one step at a time, but for most people, some kind of ongoing planning (and adjustments to plans) is required.

Resource allocation

In broad terms, managers have access to the following resources, which they should allocate between tasks in order to carry out their responsibilities and the functions of their organisational unit:

(a) **Human resources:** staff time and skills

(b) **Material resources**, such as raw materials, equipment, machine time, office space and so on

(c) **Financial resources**: managers are often given authority to spend within budget guidelines

A manager may be responsible for allocating resources between:

(a) Different ways of trying to achieve the same objective. For example, in order to increase profit, a manager may have a choice between allocating resources to increase sales revenue or to reduce costs.

(b) Different activities or projects, where total resources are limited. When resources are limited, they should be allocated to the tasks or activities that are given higher priority. For example, if a manager must keep spending within a budget limit but would like to carry out tasks that would cost more than the budget limit, they have to decide how the money should be used and allocate it to the tasks that they consider the most important.

Project management

A **PROJECT** is 'an undertaking that has a beginning and an end and is carried out to meet established goals within cost, schedule and quality objectives' (Haynes, *Project Management*).

The main difference between project planning and other types of planning is that a project is not generally a repetitive activity. Projects generally:

- Have specific start and end points
- Have well-defined objectives, cost and time schedules
- Cut across organisational and functional boundaries: members of a project team come from different functional departments

The relocation of offices, the introduction of a new information system or the launch of a new product may be undertaken as a project. Other examples include building or capital projects, such as factory construction or bridge building.

The job of **project management** is to foresee as many contingencies as possible and to plan, organise, co-ordinate and control activities.

1.2 Mintzberg on the purpose of the manager

Mintzberg suggested that there are six basic purposes of the manager based on the various managerial roles that have been identified as existing within organisations. These purposes embody a number of the points highlighted above and illustrate why organisations need managers. The six purposes are as follows:

- To oversee the efficient production of the goods or services offered by the organisation in order to ensure the basic purpose of the organisation is met
- To design the operations used by the organisation and to maintain the stability of those operations on an ongoing basis
- To take responsibility for the strategy of the organisation. This will involve monitoring the environment and making adjustments to the organisation, and its strategy, in light of any changes to the environment
- To ensure the organisation meets the needs of those who control it
- To provide a link between the organisation and the environment in which it operates
- Management provides the formal authority to operate the organisation's status system

1.3 Mintzberg: the manager's role

Mintzberg described managerial roles by arguing that management is a disjointed, non-systematic activity.

Henry Mintzberg (1989) did a study of a relatively small sample of US corporations to see how senior managers actually spend their time. He suggested that in their daily working lives, managers fulfil three **types** of managerial role.

Role category	Role	Comment
Interpersonal Based on manager's formal authority or position	**Figurehead** (or ceremonial)	A large part of a chief executive's time is spent representing the company at dinners, conferences and so on.
	Leader	Hiring, firing and training staff, motivating employees, and reconciling individual goals with the objectives of the organisation.
	Liaison	Making contacts outside the vertical chain of command. Some managers spend up to half their meeting time with their peers rather than with their subordinates.
Informational Based on managers' access to: • Upward and downward channels • Many external contacts	**Monitor**	The manager monitors the environment, and receives information from subordinates, superiors and peers in other departments. Much of this information is of an informal nature, derived from the manager's network of contacts.
	Spokesperson	The manager provides information on behalf of the unit and/or organisation to interested parties.
	Disseminator	The manager disseminates relevant information to subordinates.
Decisional Based on the manager's formal authority and access to information, which allow him to take decisions relating to the work of the department as a whole.	**Entrepreneur**	A manager initiates projects to improve the department or to help it adapt to changes in the environment.
	Disturbance handler	A manager has to respond to unexpected pressures, taking decisions when there is deviation from plan.
	Resource allocator	A manager makes decisions relating to the mobilisation and distribution of limited resources to achieve objectives.
	Negotiator	Both inside and outside the organisation, negotiation takes up a great deal of management time.

Mintzberg's research challenged the classical view of the manager as separate to, or above, the routine demands of day to day work.

(a) Managers are not always able to be reflective, systematic planners.

(b) Managerial work is disjointed and discontinuous.

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(c) Managers do have routine duties to perform, especially of a ceremonial nature (receiving important guests) or related to authority (signing cheques as a signatory) – contrary to the myth that all routine work is done by juniors.

(d) Managers prefer verbal and informal information to the formal output of management information systems. Verbal information is 'hotter' and probably easier to grasp.

(e) Management cannot be reduced to a science or a profession. According to Mintzberg, managerial processes cannot be analysed scientifically or codified into an examinable body of theory.

Mintzberg states that general management is, in practice, a matter of **judgement and intuition**, gained from **experience** in **particular situations** rather than from abstract principles. 'Fragmentation and verbal communication' characterise the manager's work.

1.4 Fayol on the functions of management

Henri Fayol (1841-1925) was a French industrialist who popularised the concept of the '**universality of management principles**'. This is the idea that all organisations can be structured and managed according to certain rational principles of management.

Fayol identified five **functions of management** which apply to any organisation.

Function	Comment
Planning	This involves deciding **objectives**, and strategies, policies, programmes and procedures for achieving those objectives, for the organisation and its sub-units.
Organising	Establishing a **structure of tasks** which need to be performed to achieve the goals of the organisation; grouping these tasks into jobs for individuals or teams; allocating jobs to sections and departments; **delegating** authority to carry out the jobs; and providing **systems of information** and communication, for the co-ordination of activities.
Commanding	Giving **instructions** to subordinates to carry out tasks, for which the manager has authority (to make decisions) and responsibility (for performance).
Co-ordinating	**Harmonising** the goals and activities of individuals and groups within the organisation. Management must reconcile differences in approach, effort, interest and timing, in favour of overall (or 'super-ordinate') shared goals.
Controlling	**Measuring** and **correcting** the activities of individuals and groups, to ensure that their performance is in accordance with plans. Deviations from plans are identified and corrected.

There are two notable 'omissions' from Fayol's analysis:

(a) '**Motivating**' is not mentioned. Fayol assumed that subordinates will carry out tasks when 'commanded' or instructed to do so, regardless of whether or how far they may 'want' to.

(b) '**Communicating**' is not mentioned. However communication is implied by the functions of commanding (giving instructions), co-ordinating (sharing information) and controlling (giving feedback).

Fayol's analysis reflects the 'classical view' that the function of management as a matter of controlling resources and processes rather than people. An awareness that management is largely an **interpersonal** process, involving communication and influence, was only developed later.

Management is responsible for using the organisation's resources to meet its goals.

Managers have **key roles** in work planning, resource allocation, and project management.

Mintzberg suggested that there are six basic purposes of the manager based on the various managerial roles that have been identified as existing within organisations.

Mintzberg described managerial roles, arguing that management is a disjointed, non-systematic activity.

Fayol suggested that there are five functions of management: planning, organising, commanding, co-ordinating and controlling. To these we could add motivating (in place of commanding) and communicating.

2 Management skills

In order to be an effective manager, individuals should have managerial skills. Managerial skills can be developed with experience and training. Arguably, other skills are much more difficult to acquire.

2.1 Technical skills

Managers should have technical competence in the aspects of business that they manage. Many managers acquire a professional qualification, in order to learn technical skills in areas such as accounting, human relations management, marketing, purchasing and engineering. Senior managers also need to develop management skills in planning and control.

2.2 Social skills: skills in dealing with people

Much of the work of a manager involves dealing with other people, including subordinates, superiors and managers in other departments. A manager requires excellent skills in people management for a variety of reasons:

(a) A manager leads a group of employees, and needs to create a motivated team. He needs to persuade subordinates to do what he asks of them, and to do their work efficiently. This requires people skills: a boss cannot rely simply on giving orders and expecting them to be carried out.

(b) In dealing with managers in other departments, a manager needs to develop a good relationship, based on respect and trust, in order to obtain their help and co-operation.

(c) In dealing with customers and suppliers, managers need negotiating skills. Success in negotiation often depends on building a relationship of trust.

2.3 Leadership skills

Managers are leaders of other people, and they need to have leadership skills to bring out the best in other people.

2.4 Conceptual skills

Managers need to be able to see and understand the complexities of the business and its environment, and to see the various ways of dealing with a problem or achieving an objective. The ability to reach solutions in business calls for conceptual skills operations of the organisation as a whole including external factors. The ability to reach solutions involves **decision-making skills**.

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Managers should have a variety of skills: technical skills, social skills, leadership skills, conceptual skills and decision-making skills.

3 Theories of management

An understanding of management, and what is needed for good management, has evolved over many years. Several theories have been developed. Each theory presents a different view of management. Some of the most significant of these theories are described below.

3.1 F W Taylor: scientific management

Frederick W Taylor (1856-1915) pioneered the **scientific management** movement in the US. He was among the first to argue that management should be based on 'well recognised, clearly defined and fixed principles, instead of depending on more or less hazy ideas'. Taylor was a very skilled engineer and he took an engineering efficiency approach to management:

(a) The development of a true **science of work**: 'all knowledge which had hitherto been kept in the heads of workmen should be gathered and recorded by management. Every single subject, large and small, becomes the question for scientific investigation, for reduction to law'.

(b) The **scientific selection** and **progressive development** of workers: workers should be carefully trained and given jobs to which they are best suited.

(c) The application of techniques to **plan, measure and control work** for maximum productivity.

(d) The constant and intimate **co-operation between management and workers**: 'the relations between employers and men form without question the most important part of this art'.

In practice, scientific management techniques included the following key elements:

(a) **Work study techniques** were used to analyse tasks and establish the most efficient methods to use. No variation was permitted in the way work was done, since the aim was to use the 'one best way'.

(b) **Planning and doing were separated**. It was assumed that the persons who were intellectually equipped to do a particular type of work were probably unlikely to be able to plan it to the best advantage: this was the manager's job.

(c) Jobs were **micro-designed**: divided into single, simple task components which formed a whole specialised 'job' for an individual, rather than permitting an individual to perform whole or part-task processes. (Task 'meaning' and 'significance', now considered essential to job satisfaction, had not yet emerged as important values.)

(d) Workers were **paid incentives** on the basis of acceptance of the new methods and output norms; the new methods greatly increased productivity and profits. Pay was assumed to be the only important motivating force.

Taylor is probably best known for the experiments he carried out into shovelling coal at the Bethlehem Steel Works in the US where he succeeded in improving productivity. His approach was to analyse the tasks that individuals perform in their work, and break them down into smaller units of work. Each small unit of work was then analysed to find ways in which they could be performed more efficiently (in a shorter time). He experimented with different ways of doing the units of work, and measured the time taken with each method. The most efficient method was then selected and introduced into work procedures.

Taylor is considered the originator of **time and motion study**. Taylor's experiments at the Bethlehem Steel Works are an example of a time and motion study. The effect of the scientific management approach is to:

- Divide larger tasks into much smaller units
- Employ individuals to specialise in each small unit of work
- Increase efficiency through this division of work and specialisation

Scientific management, which is closely associated with work study and time and motion study, has been criticised because it leads to the creation of jobs that involve dull, repetitive work, which demoralises the individuals who do the job. However, elements of scientific management are still practised today, whenever there is a concern for productivity and efficiency.

3.2 Fayol's principles of management

Fayol put forward 14 principles of management, which are now associated with the 'classical' school of management theory.

(a) **Division of work**. The efficiency and effectiveness of an organisation are improved by specialisation. Work should be divided into jobs with separate areas of activity, which should be performed by specialists with particular skills. By focusing on a particular skill, individuals become more efficient and produce work of a higher standard.

(b) **Authority and responsibility**. If a manager is made responsible for a particular business activity, he must be given the authority that is necessary to fulfil the responsibility properly. Having the necessary authority means being able to make decisions and having the resources to put the decisions into effect. Authority and responsibility should go together. A manager should not be given authority without responsibility, and should not be given responsibility without the necessary authority.

(c) **Discipline**. Fayol argued that discipline at work is essential for the efficient operation of the organisation. Discipline is, in essence, the outward mark of respect for agreements between the organisation and its members. Without discipline, the standard of work will not be as high as it should be.

(d) **Unity of command**. An employee should receive orders from just one boss. If she has two bosses, they might give contradictory instructions. Dual command is a perpetual source of conflict. (It might be argued that a matrix organisation structure does not comply with this principle. However, even in a matrix organisation, functional managers have priority over project managers.)

(e) **Unity of direction**. In order to provide for unity of action, coordination and focusing of effort, there should be one plan and the same objective for everyone engaged in a particular activity or project.

(f) **Subordination of individual interest to the general interest**. The interest of the organisation should come before individual or group interests. An organisation should not allow itself to be subject to the selfish interests of a particular individual or group.

(g) **Remuneration of personnel**. Remuneration should as far as possible satisfy both the employee and the employer. It should be fair and should encourage employees by rewarding well-deserved effort.

(h) **Centralisation**. Fayol argued that some centralisation of decision-making is necessary in any organisation. However, the minimum amount of centralisation required varies between organisations.

(i) **Scalar chain**. The chain of command and lines of reporting should be clear, sensible and understood.

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(j) **Order**. Fayol believed that employees need a sense of order in their work. They need to know how they fit into the organisation and what the organisation expects them to do. They need policies, rules and procedures that they can understand and follow. An implication of Fayol's argument is that any changes to rules and procedures should be made gradually. Radical changes can upset employees and make them anxious about their job. This principle is not accepted by those who believe that radical change may be essential to improve the performance of an organisation.

(k) **Equity**. There should be fairness and equality of treatment in dealing with employees throughout all levels of the organisation.

(l) **Stability of tenure of personnel**. It takes time for an individual to get used to a new job and to do it well. Employees should therefore be kept in the same job for a reasonably long time, and should not be moved continually from one job to another.

(m) **Initiative**. Employees at all levels in the organisation will perform with more enthusiasm and energy if they are allowed to use their initiative in the work that they do.

(n) ***Esprit de corps***. In a successful organisation, there is a sense of belonging to a team and a strong, positive team spirit (*esprit de corps*). Team spirit should therefore be encouraged.

3.3 Weber (1864 – 1920) and bureaucracy

Max Weber was a German sociologist who studied the growth of large bureaucratic organisations. He suggested that bureaucracies had grown because they were a successful form of organisation because they provide a rational system for co-ordinating human activities, based on a hierarchy of authority. Some of his views are consistent with Fayol's principles of management.

He argued that an 'ideal' bureaucracy has the following characteristics.

(a) There should be a hierarchy of authority, from top management down to workers at the bottom. Information should flow up the chain of command and instructions and directions should pass down the chain.

(b) A bureaucracy should operate in an impersonal and impartial way. There should be clear statements of duties, responsibilities and procedures and written rules of conduct.

(c) There should be division of labour and specialisation of work.

(d) The promotion of individuals within the organisation should be based on their achievement.

Weber argued that the ideal bureaucracy will perform successfully.

Criticisms of bureaucracy

Bureaucracy is criticised for several reasons.

(a) There is too much emphasis on conformity with rules and procedures, and record keeping. By following rules strictly, it is easy to lose sight of the purpose for which the rules were made.

(b) Managers within a bureaucracy may have too much concern for position and status, and may not be flexible and adaptable in their approach to management. Position and responsibilities in the organisation can lead to officious bureaucratic behaviour.

(c) Initiative may be discouraged by the existence of rules and procedures.

(d) Impersonal relations can lead to stereotyped behaviour and a lack of responsiveness to individual incidents or problems.

(e) Bureaucracy may give managers the opportunity to hide from responsibility, by following the rules and claiming that they were just following the rules when anything goes wrong.

(f) Most important of all, bureaucracies are slow to react to change. In a dynamic and ever-changing business environment, bureaucracies may be uncompetitive against other, less bureaucratic companies.

However, in spite of the criticism, many large organisations are bureaucracies. Government organisations in particular are usually bureaucratic, because bureaucracy operates with clear and impartial rules and procedures. It may be difficult for a large organisation to operate successfully without bureaucracy in much of its activities.

3.4 Elton Mayo: the human relations theory of management

In the 1920s, research began to show that managers needed to consider the complexity of **human behaviour** and its effect on work performance. Scientific management focused on technical competence and work procedures. Managers were not taught how to manage people. It became apparent that workers were demoralised by feeling that they were a 'small cog in the machine', whatever the financial incentives they were offered. This made them feel alienated from their work, and this could have a negative effect on their performance. A more complex picture of human motivation began to emerge.

The Hawthorne experiments

Elton Mayo (1880 – 1949) was Professor of Industrial Research at the Harvard Business School. He was involved in a series of studies at the Western Electric Company's Hawthorne works in Chicago between 1924 and 1932.

The original aim of the Hawthorne experiments was to conduct a scientific management study into the effect on productivity of changes in working conditions, such as changes in the lighting, rest periods during the day, the length of the working day and pay incentives. Some workers were chosen to take part in the experiments, and their conditions of working were varied in different ways, to see how the changes affected their productivity. The results of the experiments were unexpected. Even when their working conditions were changed back to what they were originally (and made worse), the productivity of the workers continued to rise. Mayo tried to explain why productivity continued to rise when working conditions were made worse.

It was apparent that **worker attitudes** and **group relationships** were of greater importance in determining the levels of production achieved than the changes in working conditions. Mayo concluded that the reason for improving productivity among the workers could be explained by:

- The motivation of the individuals in the experiment
- The relationships that developed during the experiments between the employees and management

He suggested that productivity had improved because the workers had become a team, with strong social relationships as well as a work relationship. The team had responded positively, because the workers felt that they were contributing freely to the experiments, without coercion from management.

The views of the human relations school of management theory

The conclusion from the Hawthorne experiments was that people are motivated at work by a variety of psychological needs, including social or 'belonging' needs. This became the basis of the **human relations school** of management theory.

- The supporters of the human relations theory developed several arguments about the effect of positive motivation on productivity.
- Work has a social value for workers, not just a financial interest. Social relationships at work create an 'informal organisation' which is important in affecting workers' attitudes.
- The productivity of workers is also affected by their self-esteem, and belief in the value of what they do. In the Hawthorne experiments, the self-esteem of selected workers had increased because they had been chosen to assist with the experiments.
- Work satisfaction can have a positive impact on performance. Work satisfaction comes from recognition (which creates self-esteem), security and a sense of belonging to a group. Work satisfaction is not based on money rewards.

- Motivation is also affected by the relationship between management and workers. Managers should communicate with workers. Without communication, workers will believe that managers are concerned with nothing but cutting costs and improving efficiency. Management must should develop and apply 'people skills' in order to motivate their workers.
- Improving the motivation of employees will result in better performance.

These ideas may seem 'obvious' today, but Mayo was the first management theorist to recognise the social aspects of working and the effects of motivation on performance.

1.1 Hawthorne experiments

QUESTION

Even though the human relations school of thought (Hawthorne experiments) was criticised, there are still some useful learning experiences from these studies. Outline the important experiences learned from the Hawthorne studies/experiments, but explain the criticisms of the human relations school.

3.5 Chester Barnard's system approach

In his book *The Functions of the Executive,* Barnard (1938) explains that organisations should be viewed as a 'system of co-operative human activities'. In essence when individuals work together they are capable of achieving more than if they worked independently. As the number of individuals co-operating in pursuit of a common purpose increases this gradually leads to the creation of a continually changing 'system' of social, biological and psychological parts. Barnard argued that in order for such systems to continue in operation, consideration needs to be given to two factors: **effectiveness** and **efficiency**.

Barnard viewed effectiveness as relating to the ability of individuals which form the system to achieve stated goals. This requires individuals to remain committed to achieving the intended purpose of the system (organisation).

Barnard's definition of efficiency concerns the ability of the system (organisation) to satisfy the needs and motives of the individuals which make up the system. In essence for an organisation to succeed co-operation must be achieved through satisfying the motivations of individuals (workers) and the meeting of organisational goals.

Barnard recognised that in order to achieve continued co-operation that the management within organisations must adequately communicate with workers to encourage them to remain with the organisation. Barnard also highlighted the need for managers to develop the means by which the needs of individual workers can be satisfied in exchange for their acceptance of organisational goals. The creation of such an environment is the responsibility of management.

3.6 Modern writers on management

Subsequent writers on management have taken a more **flexible** view of what managers do.

In the second half of the 20th century, writing on management became more diverse, and focused on a wide range of different issues.

(a) The early emphasis on the organisation of work has been continued in the field of **supervisory studies** and the development of specific management techniques such as **project management**. The search for efficiency continues in the field of **work study** and **industrial engineering**.

(b) Human relations theory has been enhanced by developments in the study of motivation, group and individual behaviour, leadership and other aspects of **industrial psychology**.

(c) There has been much new writing on the nature of the **manager's task**: what it is to be a manager and what managers do, in increasingly complex and chaotic business environments.

There have been many influential writers, but some of the views of just three of them are described here: Peter Drucker, Henry Mintzberg and Rosabeth Moss Kanter.

3.7 Peter Drucker: the management process

Drucker (1909 – 2005) emphasised the economic objective of managers in businesses.

Peter Drucker worked in the 1940s and 1950s as a business adviser to a number of US corporations. He was also a prolific writer on management.

Drucker argued that the manager of a business has one basic function – **economic performance.** In this respect, the business manager is different from the manager of any other type of organisation. Management can only justify its existence and its authority by the economic results it produces, even though as a consequence of its actions, significant non economic results occur as well.

Drucker on management tasks

Drucker described the jobs of management within this basic function of economic performance as follows.

(a) **Managing a business.** The purposes of the business are to create a customer and innovation.

(b) **Managing managers.** The requirements here are:

- Management by objectives (or performance management)
- Proper structure of managers' jobs
- Creating the right spirit (culture) in the organisation
- Making a provision for the managers of tomorrow (managerial succession)
- Arriving at sound principles of organisation structure

(c) **Managing workers and work**

A manager's performance in all areas of management, including management of the business, can be enhanced by a study of the principles of management, the acquisition of 'organised knowledge' (for example, management techniques) and systematic self assessment.

Drucker on management processes

Drucker grouped the work of the manager into five categories.

(a) **Setting objectives for the organisation.** Managers decide what the objectives of the organisation should be and quantify the targets of achievement for each objective. They must then communicate these targets to other people in the organisation.

(b) **Organising the work.** The work to be done in the organisation must be divided into manageable activities and manageable jobs. The jobs must be integrated into a formal organisation structure, and people must be selected to do the jobs.

(c) **Motivating** employees and communicating information to them to enable them to do their work.

(d) **The job of measurement.** Management must:

(i) Establish **objectives** or yardsticks of performance for all personnel

(ii) Analyse **actual performance**, appraise it against the objectives or yardsticks which have been set, and analyse the comparison

(iii) **Communicate** the findings and explain their significance both to subordinate employees and also to superiors

(e) **Developing people.** The manager 'brings out what is in them or he stifles them. He strengthens their integrity or he corrupts them'.

Every manager performs all five functions listed above, no matter how good or bad a manager they are. However, a bad manager performs these functions badly, whereas a good manager performs them well. Unlike Fayol, Drucker emphasised the importance of **communication** in the functions of management.

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3.8 Rosabeth Moss Kanter

Kanter is best known for her work on the inefficiencies of modern bureaucracy, and the characteristics that modern organisations must have in order to be successful.

She criticised bureaucratic organisations for being slow to adapt to change and slow to reach major decisions. This did not matter when the business environment was fairly stable. However, the business environment is now much more dynamic and is continually changing, particularly with developments in computerisation and communications technology. Bureaucracies must therefore change to survive and succeed. In her book *Teaching Elephants to Dance* (1989) she argued that today's 'corporate elephants' must learn to dance as nimbly and speedily as mice in order to survive in an increasingly competitive and rapidly changing world.

She wrote: '[Business] requires faster action, more creative manoeuvring, more flexibility and closer partnerships with employees and customers than was typical in the corporate bureaucracy. It requires more agile, livelier management that pursues opportunity without being bogged down by cumbersome structures or weighty procedures that impede action. Corporate giants, in short, must learn to dance.'

She went on to argue that success in business depends on:

- Innovation: developing new products, services and operating methods
- Entrepreneurship: taking business risks
- Participative management: encouraging all employees to participate in making decisions about work

She also argued in favour of greater 'empowerment'. This means giving more authority and power to the individual worker, instead of relying on managers to tell their workers what to do. Empowerment will get the best out of individuals at work.

Large organisations should have a flatter structure, with fewer levels in the management hierarchy and a much shorter chain of command. (This is consistent with her view that workers should be empowered, and so need less supervision or management.)

3.9 Contingency theory

Contingency theory is based on the belief that there is no 'one best way' of managing and leading, but that effective managers and leaders adapt their behaviour to the specific and changing variables in the leadership context: the nature of the task, the personalities of team members, the organisation culture, and so on. Contingency theory in leadership is discussed in greater detail in Chapter 4.

Taylor developed the concept of scientific management. This is the scientific study of work methods with a view to improving efficiency. Scientific management is associated with time and motion study.

Fayol identified 14 principles of organisation and management.

Weber argued that bureaucracies were the most efficient type of organisation.

Mayo was the originator of the behavioural school of management. He investigated individual and group behaviour at work, as a factor in productivity and concluded that social aspects of working are important to employees.

Barnard viewed organisations as a 'system of co-operative human activities'.

Subsequent writers have taken a more **flexible** view of what managers do.

Drucker emphasised the economic objective of managers in businesses.

Kanter criticised bureaucracies for being inefficient and slow to make important decisions. Successful organisations are innovative, entrepreneurial and there is a participative management style and empowerment of junior managers and employees.

Contingency theory is based on the belief that there is no 'one best way' of managing and leading.

EXAM ALERT

Ensure you are able to explain the key differences between the different management theories discussed in this section.

4 Types of organisation and their characteristics

Our discussion now moves onto to consider the characteristics of different types of business organisation: sole trader businesses, partnerships, public and private limited companies and co-operatives.

There are several different types of organisation that may be established by someone who wishes to start and then run a business. There are **sole traders, business partnerships, private limited companies, public limited companies** and **co-operative organisations**.

There are also public sector organisations, which are owned by the central government, by provincial or regional government, or by a government agency. These public sector organisations are described in Chapter 8.

The main objective of a business is to **make a profit**. This is true for a small business such as a Kantemba business in the street of a town, as well as for a large company. Businesses operate in many different industries. There are airlines, advertising firms, agricultural businesses, auditing firms, law firms, manufacturers of food and drinks, mobile phone companies, mining companies, chain stores and supermarkets, banks, media companies, construction and building companies, technology companies, hotels, and so on.

4.1 Sole traders

A **SOLE TRADER BUSINESS** also called a sole proprietorship, is a business that is owned by only one person.

The main features of sole proprietorship are as follows:

(a) The business is **owned** by **only one person**, who provides all the capital that is needed to set it up.

(b) The sole trader runs the business themself and takes their reward from the profits that the business makes.

(c) The owner **works** in the business, but may be assisted by some workers or family members.

(d) Sole traders are **personally liable** for all the debts of their business. If the business cannot pay what it owes, the sole trader is liable and must make the payment from their personal assets outside the business.

(e) It is the **simplest** type of business organisation to set up.

(f) Sole proprietorships are usually small businesses, although some can be large.

(g) Sole proprietorships are very common.

Most sole trader businesses are **small in size** because all the capital is provided by one person, and individuals may not have a lot of money to put into their business as capital. Many sole trader businesses are found in the retail trade (shops and stalls) and other small businesses such as hotels, bars, TV and radio repairs, hairdressers and small travel agencies.

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4.2 Partnerships

A **BUSINESS PARTNERSHIP** as some similarities with a sole proprietorship, except that it is owned and run by two or more people. Each partner puts capital into the business and helps to manage and operate the business. They take their rewards from the business profits, which are shared between them in an agreed way. A partnership may be referred to as a 'firm'.

Partnerships may be established for the purpose of **combining skills, experience, knowledge, finance or assets.** Individuals may realise that they do not have enough skills or finance to run a business on their own. By entering into partnership with one or more other individuals, they can achieve more and create a more successful business.

The main features of a partnership are as follows:

(a) They can be formed by up to 20 partners, except that professional partnerships such as firms of accountants, lawyers, doctors and engineers may have more than 20 partners.

(b) Partnerships are common among the **professions**.

(c) The **initial capital** of the partnership is provided by a **contribution** from each partner. The partners are all part-owners of the business, but the capital contributed by each partner does not have to be the same amount. Some partners may provide more capital than others.

(d) In a business partnership the partners also **manage and control** the business. They may employ other individuals.

(e) Every partner is entitled to be **involved** in the **running of the business**. A decision made by any one partner is binding on the partnership. For example, if one business partner orders some goods from a supplier, the business is liable and the other partners cannot refuse to accept the goods or pay for them.

(f) By law, a partnership does not have a legal existence as a separate entity. This is different from companies. Every partner is personally liable for the debts and other liabilities of the business. If the business cannot pay its debts, the partners are liable to pay the debts from their personal assets. In this respect, partnerships are the same as sole traders.

There should be a **partnership agreement**, in the form of a legal document (a partnership deed). This sets out the purpose and objectives of the business, the way in which the profits of the business will be shared between the partners, the rights of each partner and their obligations to the business.

4.3 Limited companies

A **limited company** is a business that is governed by the **Companies Act of Zambia**. When a company is limited by shares, it is owned by its shareholders. Two important features of limited companies are **separate legal personality** and **limited liability** for its owners.

(a) A limited company has a **separate legal personality** from its owners (shareholders). A company can enter into legal agreements with someone else in its own name, and has legal rights and obligations.

(b) The shareholders cannot usually be sued for the unpaid debts of the company's business unless they have given a personal guarantee. Their risk (or liability) is generally restricted to the amount that they have invested in the company when buying the shares. This is called **limited liability**.

Companies may be private limited companies or public limited companies. The main features of both types of company are as follows.

(a) When a company is set up, it issues shares which are bought by its owners. The owners are shareholders, and their share of the ownership of the company depends on the number of shares they hold, as a proportion of the total number of shares issued.

(b) Companies may raise more capital subsequently by issuing more shares.

(c) Shareholders can dispose of their shares. New investors may buy shares or inherit shares from them. When the ownership of shares changes, through sale, gift or inheritance, the company itself is not affected.

(d) Shareholders receive their return, in the form of dividends, from the profits of the company. The share of the dividends that they receive depends on the number of shares they own.

(e) The **ownership** and **control** of a limited company are **legally separate. Directors are appointed by shareholders to run the company**. The shareholders are the owners, but the company's directors control the company and its business.

(f) The shareholders of a company and its directors may be the same individuals, especially in small companies. However, there is no legal requirement for the owners to be the directors. They are often different individuals, especially in large companies, where executive directors are professional managers.

(g) Executive directors are the senior managers of their company, but in large companies there are other managers who are not directors.

(h) All companies have a constitution, known as its articles of association. When a company is set up, it must be registered with the Registrar of Companies, who issues a certificate of incorporation.

(i) Whereas sole proprietorships and many partnerships are small businesses, limited companies may be of any size.

4.4 Private limited companies

Private limited companies have some features that make them different from public limited companies. Many of these differences are specified by the Companies Act.

(a) At least 2 people, and not more than 50 people, can form a private limited company.

(b) A private limited company is often a small family business. The main shareholders are often also the directors of the company.

(c) The company must have the word 'Limited' as the last word in its name.

(d) The shares of a private limited company **cannot be offered for sale to the general public.** Shares can be sold and purchased privately, but not on a public market or stock exchange.

(e) Shares of a private limited company are **not transferable** without the agreement of the other shareholders.

(f) Private limited companies are usually much smaller than public limited companies, although foreign companies may establish wholly owned subsidiaries, which are usually private companies.

4.5 Public limited companies

The main features of **public limited companies**, that make them different from private limited companies, are as follows:

(a) A public limited company formed by and owned by at least two persons, but there is no maximum legal limit to the number of shareholders there may be.

(b) Its name must end with the words 'public limited company' which is usually shortened to PLC or Plc.

(c) There is no legal restriction on the transfer of shares from one person to another.

(d) Shares in a public limited company **can be offered for sale to the general public**.

(e) The shares of public limited companies are generally quoted on the Lusaka Stock Exchange and their shares are freely bought and sold on the stock exchange.

(f) They can be very large companies, and the main shareholders are not also directors. Directors may own some shares in the company. **Responsibility** for the day to day running of the business is delegated to the **Managing Director**.

(g) Some Zambian public limited companies whose shares are traded on the Lusaka Stock Exchange are **controlled by a foreign parent company**, which owns a majority of the company's shares. (For example, at the time of writing, Zambia Sugar Plc is a subsidiary company of Illovo Sugar, whose shares are listed on the Johannesburg Stock Exchange. Zambia Sugar is listed on the Lusaka Stock Exchange. Similarly, Zambia Breweries Plc is a listed company on the Lusaka Stock Exchange but it is also a subsidiary of the global brewery company, SABMiller Plc.)

Public limited companies are subject to stricter legal requirements than private limited companies, but these are not in the syllabus for Paper D7.

4.6 Co-operatives

A **CO-OPERATIVE** is a business enterprise that is owned collectively by its members and managed for their joint social and economic benefits. The members are usually owners of small businesses, who join together to improve and develop their businesses by acting together.

In Zambia, the most common co-operative societies are agricultural co-operative societies, which are organised within a hierarchical system of primary co-operative societies at the village level, co-operative organisations at district and provincial level and the Zambia Co-operative Federation which co-ordinates activities and represents co-operatives at the national level.

Agricultural co-operatives may be formed to improve agricultural businesses, such as the growing of maize, pig rearing or milk production. Acting together, farmers in a co-operative can do more than they could individually. For example, farmers who form a co-operative to assist each other with growing maize are able to sell their produce more easily, because together they can produce in sufficient quantities to interest a merchant.

The main features of co-operatives are as follows:

(a) Members join a co-operative by **buying shares** in it. There is a maximum limit to the number of shares that any individual can own. This prevents a rich person from taking control of the organisation.

(b) Each co-operative sets **rules for its activities** and there are regular meetings of members to monitor its operations.

(c) They are **democratic** organisations. Members have one vote irrespective of the number of shares one holds at any particular time.

(d) Co-operatives aim to **make a profit**, which is shared among the members.

(e) They are **open organisations**, which means that new members can join at any time by purchasing a share. Membership is **voluntary**, so individuals can leave if they wish to do so.

(f) The members participate in the economic activities of the business.

(g) They provide information to their members, to help them run their businesses more successfully, and also offer training.

(h) There is co-operation between different co-operatives.

There are different types of business organisation: the most common are sole trader businesses, partnerships, public and private limited companies and co-operatives.

For each type of business, the ownership and management are different.

With sole traders and partnerships, the owners may be personally liable for the unpaid liabilities of their business. For shareholders in limited companies there is unlimited liability.

Companies also have their own legal personality. In law, companies and their owners are different.

The largest businesses in Zambia are public limited companies or businesses owned by a large foreign company (as a branch or as a company established in Zambia). Public limited companies have access to large amounts of capital because they can issue shares or bonds to the general public.

5 Benefits and limitations of different types of organisation

The previous section described the main types of business organisation. Some types of organisation are better than others for different types of business. Each type of organisation has its benefits and limitations.

5.1 Benefits and limitations of a sole trader business

There are several advantages of running a business as a sole proprietorship.

(a) The business is **easy to set up**. If it is small, it is easy for the owner to control and manage it.

(b) It requires only a **small amount of capital** to set up. As a result many individuals are able to set up and run this type of business.

(c) In a small business, the owner knows about all aspects of the business, has personal contact with all the workers and can give a personal service to customers. Operating decisions can be taken very quickly.

(d) The owner is **entitled to all the profits** of the business. This can be an incentive to the owner to make the business succeed. There is also personal satisfaction from being self-employed.

(e) The financial affairs of the business are kept private, except for making tax returns to the tax authorities. A sole proprietor is liable for tax on the profits of the business.

There are also some disadvantages in running a business as a sole proprietorship:

(a) The business does **not have limited liability**. The owner may be personally liable for all the unpaid debts of the business.

(b) The business cannot survive without the owner. For example, the business would suffer if the owner became seriously ill. A sole trader may be able to sell the business to someone else, but the success of the business would then depend on the new owner.

(c) It is **difficult** for a sole trader to **borrow money**. This makes it very difficult to expand the business, or modernise the business by purchasing new equipment. A sole trader may be unwilling to provide a bank with a personal guarantee (or other form of security) for a bank loan.

(d) A sole proprietorship may become inefficient when it gets too big for just one person to operate it or to manage it.

(e) The sole proprietor is self-employed. This means they do not have such benefits as state social security or retirement benefits, which are enjoyed by those employed by companies or government departments.

5.2 Benefits and limitations of partnerships

There are several benefits from running a business as a partnership.

(a) A partnership is fairly **easy to set up**. It does not involve long and costly procedures. However, there should be a formal partnership deed, setting out the terms of the partnership agreement.

(b) The tasks of management can be **shared** between the partners. Compared with a sole proprietorship, this division of labour can make it easier to manage a growing business.

(c) The partners are able to **combine their skills**, **knowledge** and **business contacts**.

(d) Because there are several owners, it should be possible to **raise more capital** than a sole proprietorship.

(e) There is better **continuity of business** with a partnership than with a sole proprietorship. In the event of death or resignation by any partner, the remaining partners can form a new partnership. New partners can also be brought into the business.

(f) A partnership is **not required to publish** its accounts annually so there is privacy of financial information. However, individual partners are liable to pay tax on their share of the business profits.

Partnerships also have several disadvantages.

(a) Decisions may be **delayed** by disagreements among partners. Strong disagreements may lead to the break-up of a partnership.

(b) Like sole traders, partners have **unlimited liability** for the unpaid debts of the business and are therefore personally liable for the debts of the partnership. Their personal assets may be at risk.

(c) Unless the business is very profitable, the restricted number of partners limits the amount of capital that the business can raise for expansion. This is because any new capital, unless it comes from retained profits of the business, must come from the partners themselves.

(d) Except for professional partnerships, the number of partners is limited to a maximum of 20. This restricts the ability of the partnership to raise capital.

(e) The loss of a partner, through death or resignation, may disrupt the business.

(f) A decision by one partner may be **binding on all the other partners** even if it is a bad decision. This can make a partnership business risky when one or more of the partners have poor business sense.

1.2 Partnerships

QUESTION

Three local builders have met to discuss the possibility of joining together in a business partnership. Explain the possible advantages and problems with forming a partnership.

5.3 Benefits and limitations of limited companies

Limited companies, both private and public limited companies, have benefits and limitations.

(a) Limited liability means that shareholders are **not liable** for the unpaid debts of their company. They cannot lose more than they have invested in the company, so their personal assets are not at risk. This makes ownership of the business **less risky** than with sole proprietorships and partnerships.

(b) A company is a **legal person**, which means that it can enter contracts in its own name, without the need for agreement or approval from one or more of its owners.

(c) Ownership of a company can change by means of **transferring share ownership**. This does not affect the business.

(d) In larger companies, especially public limited companies, the shareholders and directors are different people. Although share ownership changes, and directors may change, the company does not depend on one person. Consequently there is greater certainty in **business continuity**, especially for large public limited companies.

(e) The directors are **accountable to the shareholders**, by means of the annual report and accounts and the Annual General Meeting of the company.

(f) Companies can **raise more capital** by issuing new shares.

Companies have some disadvantages as a form of business organisation, which apply to both private and public limited companies.

(a) There are **stricter regulations** for companies than for sole traders and partnerships. Many of these are set out in the Companies Act. Public limited companies are regulated more strictly than private limited companies.

(b) The annual accounts of companies must be **audited**.

5.4 Benefits and limitations of private limited companies

Private limited companies have some benefits and limitations that do not apply to public limited companies.

An advantage is that when most of the shares in a private limited company are owned by the company's founders, they are able to **retain control** over the business because they own a majority of the shares.

There are some disadvantages with a private limited company that do not usually apply to public limited companies.

(a) Although the company can raise new capital by issuing new shares, it cannot do this by offering new shares for sale to the public. The amount of new capital it can raise may be restricted by the limited number of shareholders.

(b) Lack of capital may **restrict the growth** of a private limited company.

(c) The shares are **not freely transferable**, because the approval of the other shareholders is required for a transfer of shares.

(d) It may be difficult for a private limited company to borrow from a bank, because the bank may regard a small company as a credit risk.

5.5 Benefits and limitations of public limited companies

Most large companies are either PLCs or subsidiary companies owned by large foreign companies. Many of the benefits of a PLC organisation are also the benefits of being a large company.

(a) The shares of Zambian public limited companies are traded on the Lusaka Stock Exchange.

(b) There are no restrictions on the number of shares a PLC can issue, or the number of shareholders it may have.

(c) Public limited companies are therefore **able to raise large amounts of capital** on the stock market. Large companies need a large amount of capital.

(d) The large size of PLCs means that banks are often willing to lend to them, and PLCs find it easier to borrow than other types of business.

(e) Investors are able to buy shares in a company without having to become involved in managing its business operations. Many investors in large companies do not want to be involved in running the business.

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(f) Large companies are able to employ large numbers of people, and many of these develop specialist skills, for example in marketing and accounting.

(g) Large companies are also able to invest in modern equipment and technology, and so are more efficient than most small businesses.

(h) Their ability to borrow at lower interest costs, specialist skills of employees, use of modern equipment and ability to buy materials in bulk at discount prices are all reasons why large companies are able to benefit from **economies of scale**.

The disadvantages of being a PLC are as follows.

(a) Public limited companies are **regulated more strictly** than other types of business. Compliance with laws and regulations is expensive.

(b) It may be difficult to grow a company to the size where it can become a public limited company with a listing on the Lusaka Stock Exchange.

(c) There is little secrecy, because the audited accounts of listed companies must be published annually. This is a legal requirement.

(d) Large companies may be **difficult to manage** because of their size and complex organisation. Important decisions may be delayed because of administration and bureaucracy.

5.6 Benefits and limitations of co-operatives

The main benefits of co-operatives are as follows.

(a) Co-operatives help their members to develop their businesses by **sharing efforts**, **activities** and **assets**, and members and their families therefore benefit economically and socially. Training programmes can also help members to develop skills that help them to run their businesses better or develop new business operations.

(b) By acting together, members of co-operatives are able to produce sufficient quantities of goods to give them negotiating power with merchants who buy them.

(c) They are democratic organisations, and cannot be dominated by wealthy individuals.

(d) They often produce goods for the local community, and when they operate successfully they can win the trust of their local customers.

(e) Co-operatives have contributed to the economic and social development of Zambia, especially in agriculture, and co-operatives benefit from their national organisation structure.

However co-operatives have limitations as a form of business organisation.

(a) As they get bigger, they may become more difficult to organise.

(b) The amount of capital they can raise is restricted by the amount of money that the members can afford to contribute. Government-assisted funding may be available, but capital is nevertheless limited. Because there is a limited amount of capital, it is difficult for co-operatives to expand.

(c) Co-operatives do not have a qualified management team, and there may be poor management, poor planning and poor financial control. This has forced some co-operatives to close down.

1.3 Co-operative societies

QUESTION

Many communities in Zambia have formed co-operative societies as a way of creating investment. Discuss the characteristics of co-operatives and state why many communities opted for them. What are the advantages of such types of business?

Each type of business organisation has benefits and limitations. This means that different types of organisation are the most appropriate for particular businesses.

Sole proprietorships have limited capital and their success depends on the abilities and efforts of the owner.

In partnerships, the owners can combine their skills, experience, efforts and capital. However, access to new capital is often limited, and a partnership can be disrupted by disagreements amongst the partners.

Unlimited liability is a risk for sole traders and partners. Limited liability is a benefit of share ownership in companies.

Companies, particularly public limited companies, enable the ownership of the business to be separated from its management. (This is the separation of ownership from control.) Companies are able to employ professional managers.

Co-operatives rely on the collective efforts of their members. When successful, they have enabled local communities to develop both economically and socially, as well as providing profits to members.

6 Stakeholders

In this next section, we look at the stakeholders in an organisation. Stakeholders are individuals or groups that have an interest in what the organisation does and who may also be able to influence what the organisation does. Management must try to balance the conflicting interests and demands of the stakeholders in their organisation.

Business organisations have owners, and the owners may also manage their business. However, the owners of a business may not be its managers, and when the owners and managers are different people, they may have different views about what the business should be doing.

Business organisations cannot easily ignore the interests and demands of other individuals or groups, such as their customers, employees or suppliers.

It is important to understand that different individuals and groups have an interest in what a business organisation does, and they are sometimes in a position to influence the decisions that are made about the way the organisation is run. Managers should try to understand who these interested individuals or groups are, and what they want from the business.

STAKEHOLDERS of an organisation are individuals or groups of people who have an interest in or are affected by the goals, operations or activities of the organisation or the behaviour of the people who work in it. Some stakeholders may be able to influence the decisions that are taken by the management of the business.

There are three broad types of stakeholder in an organisation.

- **Internal** stakeholders (employees, management)
- **Connected** stakeholders (owners, customers, suppliers, financiers)
- **External** stakeholders (the community, government, pressure groups)

When the managers of a business are also the owners, such as in a business partnership, they are powerful stakeholders. Even so, they cannot ignore the interests of other stakeholders in their business.

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6.1 Internal stakeholders: employees and management

For **employees and management** their business organisation provides a job and possibly also a career. They are able to influence the way the business is run. They are interested in the following issues.

(a) The **organisation's continuation and growth**. Management and employees have a special interest in the continued existence of the organisation, because it provides a job and income for them.

(b) Managers and employees have **personal interests** and goals which can be satisfied by the organisation, such as status and job satisfaction.

Internal stakeholder	Interests to defend	Problems if their interests are ignored
Managers and employees	• Jobs/careers • Money • Promotion • Benefits • Job satisfaction	• Risk of industrial action/strikes • Employees and managers may have a negative power to prevent or slow down the implementation of decisions they do not like • They may refuse to relocate to another region • Resignation: key staff may decide to leave the organisation

6.2 Connected stakeholders

Connected stakeholders are individuals or other organisations that have a direct interest in the business, but do not work for it. In a limited company, the shareholders are important connected stakeholders.

Lenders are also connected stakeholders because they lend money to the business and expect to be repaid with interest. Customers are connected stakeholders because they buy the goods or services that the business provides, and they want good quality for a good price. Suppliers are connected stakeholders because they sell goods or services to the business, and so rely on the business for income. They want to make a fair profit from the items that they sell.

Connected stakeholder	Interests to defend	Problems if their interests are ignored
Shareholders	• Profits of the business, from which they will receive dividends • Dividends • The value of their shares • The risks to the survival of the company	• They may sell their shares • They may be able to achieve the dismissal of the company's directors • They may be able to vote against proposals by the company's directors • They may refuse to invest more money when the company's directors wish to issue new shares.
Bankers	• Security of loan • Adherence to loan agreements, so that they are repaid on time and with interest	• They may refuse to give additional credit when the business wants to borrow more • They may charge higher interest on new lending • They may take legal action against a business that defaults on its borrowing terms.

Connected stakeholder	Interests to defend	Problems if their interests are ignored
Suppliers	• Profitable sales • Receiving payment for goods • Developing a long-term relationship with the business	• Refusal to give credit • They may take legal action against a business that does not pay what it owes • Refusal to supply any more goods or services
Customers	• Obtaining goods or services of the expected quality for a fair price • Getting the benefits they expect from their purchases	• They may buy from a rival supplier of the goods or services • They may take legal action when goods or services are not supplied on the agreed terms

6.3 External stakeholders

External stakeholders are groups that do not have any direct involvement with the business, but which nevertheless have an interest in what the business does. They include central government, local government, pressure groups, the community at large, and professional bodies such as ZiCA. Professional bodies can exert influence when their members are internal stakeholders or connected stakeholders of businesses. External stakeholders have different interests and concerns.

The government is often a customer of business organisations, buying their goods and services, thus the government may be a connected stakeholder as well as an external stakeholder.

External stakeholder	Interests to defend	Problems if their interests are ignored
Government	• Creation and protection of jobs in the economy • Revenue from taxation of profits and incomes • Profitable businesses are good for the economy	• Tax increases • More regulation • Legal action for breaches of the law
External stakeholder	**Interests to defend**	**Problems if their interests are ignored**
Interest groups/pressure groups	• Protection of the environment • Protection of human rights • Other interests	• Adverse publicity through the media • Direct action • Sabotage • Putting pressure on the government to take action
Professional bodies	• The ethical conduct of members • The reputation of the profession	• Imposition of ethical standards • Disciplinary action against members

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6.4 The interests of stakeholders

It is important to understand that the interest and concerns of different stakeholders are not the same. Different stakeholders have different expectations from a business. It is also important to understand that large businesses have more stakeholders than small businesses.

Employees

Employees are probably the most important assets of a business organisation that is large enough to employ them. The employees and their employer need each other. The responsibilities of the organisation to its employees should go beyond the terms and conditions of service in the employment contract, and should recognise their wellbeing. Organisations have a social contract with their employees, where employees expect the employer to treat them in a fair way.

Shareholders

In public limited companies, the main shareholders are not involved in the running of their company. The shareholders expect the directors to protect their investment, by avoiding excessive risks, and to provide them with a good return on their investment in the form of dividends and share price growth. When shareholders are dissatisfied with the performance of the company, they have limited powers to take action against management, although in some cases they may be able to force a change of directors and senior management.

Lenders

The influence of lenders depends on the extent to which a business relies on borrowing. Banks have the power to refuse new lending when a business asks for it, and they can demand a high interest rate or security for a loan when they have doubts about the credit risk of the borrower. When a company gets into financial difficulties, the lenders are often the first to take legal action for the recovery of what they are owed.

Customers

Without customers, the business could not exist. The success of a business depends on its ability to win and keep customers. The customers expect value for money, which depends on the price charged for the goods or services and their quality. Quality depends on a range of factors such as the safety and durability of goods, the quality of the after sales service, and receiving friendly or professional customer service. If customers are dissatisfied, they can take their business away.

Suppliers

Successful businesses often rely on a continuing good relationship with their major suppliers. The quality and price of goods and services produced by a business may depend on the quality and price of goods and services they obtain from their own suppliers. The managers of a business should therefore recognise the important of preserving good business relationships, and should not always try to obtain the lowest price and best terms for the goods that they buy.

Government

Government is a major buyer of various goods and services. In addition, the government is an important external stakeholder. The laws and regulations made by government could be favourable to business, or might seem damaging to business. Business organisations may form associations or groups in order to present their concerns to government, and try to influence government decisions. The government has an interest in the success of the country's businesses, on which the government depends for tax revenue and the national economy depends for its wealth and employment. However, government also has other objectives, such as the protection of consumers and the public.

The community

The community expects large companies to act as good corporate citizens, and contribute to the well-being of the society in which they operate. Large companies may engage in projects to help the community, in matters such as health, education and sport. Such activities can help to enhance the reputation of the company.

Large companies benefit from a healthy and well-educated society, from which it sources its employees. A good reputation may persuade more customers to buy their goods or services.

6.5 Stakeholder conflict

Since their interests may be widely different, **conflict between stakeholders** is common. Managers must consider the potential for conflict when setting policy and they should be prepared to deal with it if it arises in a form that affects the organisation.

The shareholders may feel that the business is a **managerial corporation** run for the benefit of managers and employees, without regard for the objectives of the owners. For example, senior management may want to grow the business by re-investing profits when the shareholders would prefer higher dividend payments. Managers may want to take big risks in the hope of making large profits quickly, when shareholders might prefer management to pursue lower-risk strategies aimed at longer-term growth with greater business stability.

Stakeholders in an organisation are individuals or groups that have an interest in what the organisation does. They may also be able to influence what the organisation does.

There are internal, connected and external stakeholders.

The interests of stakeholders differ and often conflict with each other.

A task of management is to balance the conflicting interests and demands of the stakeholders in their organisation.

7 Small and medium-sized enterprises

In most countries, including advanced economies, the ability of the economy to grow depends on its small and medium-sized businesses. A successful economy depends on the success of its SMEs, and for this reason a government may take measures to assist SMEs.

Most business organisations are quite small, perhaps employing fewer than 100 staff. This is equally time of advanced and developing economies. Such businesses are often referred to as small and medium-sized enterprises (SMEs), though there is no commonly accepted definition of such businesses. Nevertheless, SMEs are generally seen as particularly important sources of innovation and economic growth.

Unfortunately, SMEs can have great difficulty in achieving growth. The main problem is the limited access to capital to invest in growth.

(a) Capital for growth may come from retained profits. Instead of taking out all the profits of their business, the owners can reinvest some of the profits. However, the profits of a SME will not be large, so the capital available from retained profits is limited.

(b) There is only a small number of owners, and they do not have enough capital to invest in a growing business.

(c) SMEs do not have access to the stock markets, and so cannot raise capital by issuing shares or bonds (debentures) to the public.

(d) Banks are often unwilling to lend much money to SMEs, which they regard as a high credit risk.

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SMEs may have other problems too.

(a) They may have difficulty in attracting talented managers, who may prefer a career in large public companies. When the owner is also the manager, he or she may not have the skills that are needed to grow the business.

(b) Small companies may be required to comply with extra regulations as they grow bigger, and the administrative effort and the costs of this extra regulation may put them off trying to grow.

A government may have policies to encourage SMEs to grow, but the problem has not been resolved.

Small and medium-sized enterprises are an important part of a country's economy.

However, they have severe difficulties in growing and developing. The most significant problem is the lack of access to new capital to finance growth.

EXAM ALERT

Ensure you are able to explain the benefits and limitations of different types of organisation.

Chapter Roundup

- **Management** is responsible for using the organisation's resources to meet its goals.
- Managers have **key roles** in work planning, resource allocation, and project management.
- Mintzberg suggested that there are six basic purposes of the manager based on the various managerial roles that have been identified as existing within organisations.
- **Mintzberg** described managerial roles, arguing that management is a disjointed, non-systematic activity.
- **Fayol** suggested that there are five functions of management: planning, organising, commanding, co-ordinating and controlling. To these we could add motivating (in place of commanding) and communicating.
- Managers should have a variety of skills: technical skills, social skills, leadership skills, conceptual skills and decision-making skills.
- **Taylor** developed the concept of scientific management. This is the scientific study of work methods with a view to improving efficiency. Scientific management is associated with time and motion study.
- **Fayol** identified 14 principles of organisation and management.
- **Weber** argued that bureaucracies were the most efficient type of organisation.
- **Mayo** was the originator of the behavioural school of management. He investigated individual and group behaviour at work, as a factor in productivity and concluded that social aspects of working are important to employees.
- **Barnard** viewed organisations as a 'system of co-operative human activities'.
- **Subsequent writers** have taken a more **flexible** view of what managers do.
- **Drucker** emphasised the economic objective of managers in businesses.
- **Mintzberg** described managerial roles, arguing that management is a disjointed, non-systematic activity.
- **Kanter** criticised bureaucracies for being inefficient and slow to make important decisions. Successful organisations are innovative, entrepreneurial and there is a participative management style and empowerment of junior managers and employees.
- **Contingency theory** is based on the belief that there is no 'one best way' of managing and leading.
- There are different types of business organisation: the most common are sole trader businesses, partnerships, public and private limited companies and co-operatives.
- For each type of business, the ownership and management are different.
- With sole traders and partnerships, the owners may be personally liable for the unpaid liabilities of their business. For shareholders in limited companies there is unlimited liability.
- Companies also have their own legal personality. In law, companies and their owners are different.
- The largest businesses in Zambia are public limited companies or businesses owned by a large foreign company (as a branch or as a company established in Zambia). Public limited companies have access to large amounts of capital because they can issue shares or bonds to the general public.
- Each type of business organisation has benefits and limitations. This means that different types of organisation are the most appropriate for particular businesses.
- Sole proprietorships have limited capital and their success depends on the abilities and efforts of the owner.

- In partnerships, the owners can combine their skills, experience, efforts and capital. However, access to new capital is often limited, and a partnership can be disrupted by disagreements amongst the partners.
- Unlimited liability is a risk for sole traders and partners. Limited liability is a benefit of share ownership in companies.
- Companies, particularly public limited companies, enable the ownership of the business to be separated from its management. (This is the separation of ownership from control.) Companies are able to employ professional managers.
- Co-operatives rely on the collective efforts of heir members. When successful, they have enabled local communities to develop both economically and socially, as well as providing profits to members.
- Stakeholders in an organisation are individuals or groups that have an interest in what the organisation does. They may also be able to influence what the organisation does.
- There are internal, connected and external stakeholders.
- The interests of stakeholders differ and can often conflict with each other.
- A task of management is to balance the conflicting interests and demands of the stakeholders in their organisation.
- Small and medium-sized enterprises are an important part of a country's economy.
- However, they have severe difficulties in growing and developing. The most significant problem is the lack of access to new capital to finance growth.

Quick Quiz

1 In a business partnership with four partners, each owning 25% of the business capital, each partner is liable for one quarter of the unpaid debts of the business. **True or false**?

2 A business is owned by several members of the same family. Some of the family members are active in managing the company, but others have no involvement with the business at all. It is understood that if any member of the family dies, their share of the ownership can be passed on to a descendant.

What type of business organisation is best suited for this arrangement?

A	Sole proprietorship	C	Private limited company
B	Partnership	D	Co-operative

3 A friend of yours wishes to set up a kantemba business to sell fitumbuwa to industrial workers. What type of business is he likely to set up?

A	Sole proprietorship	C	Private limited company
B	Partnership	D	Co-operative

4 A large foreign company wants to set up a drinks business in Zambia. What type of business organisation might it set up to do this?

5 There are three broad types of stakeholder. What are they?

1 .....

2 .....

3 .....

6 Which one of the following is an example of an internal stakeholder?

A	Shareholders	C	Suppliers
B	Employees	D	Financiers

7 Who suggested that a primary managerial role is 'developing people'?

A	Handy	C	Herzberg
B	Taylor	D	Drucker

8 Mintzberg identified three broad roles for a manager: interpersonal, informational and decisional. Within each broad role there are more specific roles. Which of the following roles is interpersonal, which is informational and which is a decisional role?

(a) Spokesperson (b) Figurehead (c) Disturbance handler

9 Which one of the following conclusions was reached by Mayo from the Hawthorne experiments?

A Work satisfaction improves motivation but does not improve productivity.

B Subordinates cannot be motivated by their manager, only by the work that they do.

C Motivation is improved when employees have greater self-esteem.

D Workers are motivated mostly by self-interest.

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Answers to Quick Quiz

1 False. Each partner could be liable for all the unpaid debts of the business. Their potential liability is not restricted to their share of the ownership. Someone who is owed money by the partnership can take legal action to obtain payment from any of the partners.

2 C Ownership can be transferred between family members by means of share transfer, without affecting the business or its management. With a sole proprietorship, there is only one owner. With a partnership, all partners are normally expected to be involved in running the business, and there might be difficulties with reorganising the partnership whenever a family member dies. With a co-operative, membership is open to anyone wishing to join.

3 A He will be the only owner of the business and will run the business himself.

4 There are a few possibilities. The foreign company may open a branch in Zambia. Alternatively, it might establish a subsidiary company in Zambia which it owns 100%.

Another possibility would be to collaborate with an existing Zambian company, possibly by setting up a new private limited company, 50% owned by each 'partner'. If this course of action is preferred, the foreign company would need to identify a Zambian 'partner' and agree the terms for their joint venture.

5 Internal, connected and external.

6 B The others are all connected stakeholders.

7 D Drucker

8 (a) Spokesperson = informational role.

(b) Figurehead = interpersonal role.

(c) Disturbance handling = decisional role

9 C Mayo concluded that self esteem improves work satisfaction and motivation. He also believed that greater motivation results in higher productivity, but this conclusion is questionable.

Answers to Questions

1.1 Hawthorne experiments

The Hawthorne experiments were important in bringing attention to the importance of human relations at work, and the effect that human relations can affect work performance. Prior to the work of Mayo, the focus of attention on work performance had been based on scientific method of analysing work processes, such as time and motion study.

The human relations school recognised the importance both of social relationships that develop between employees in their work (the informal organisation) and also the significance of the relationship between managers and workers and the importance of personal trust.

An assumption of the scientific school of management had been that employees are motivated entirely by financial rewards, and that their performance could be improved by paying a fair wage (or salary) and making adjustments to working conditions. The human relations school brought attention to the possibility that people do not work just for the money and that their performance cannot be improved simply by paying a fair wage and adjusting working processes and conditions.

These lessons from the work of the human relations school theorists remain valid.

The theory has been criticised however for several reasons.

(a) The recognition of the importance of social and behavioural factors does not disprove the scientific management view that performance can be improved through scientific analysis and experiment.

(b) The circumstances in which the Hawthorne experiments were carried out were unique. A group of workers were elected to assist in an experiment, and their performance was affected by the sense of esteem and involvement that they obtained from being a part of the experiment. This situation cannot easily be replicated in normal working conditions.

(c) The experiments did not sufficiently prove a link between greater motivation and better work performance. There may be a connection between enjoyment at work and the social aspects of working, and the relationship with the manager. There may also be a connection between enjoyment at work and motivation to do a good job. However, there is insufficient proof that greater motivation to do a job well will necessarily result in greater productivity.

1.2 Partnerships

By joining together in a partnership, the builders would be able to combine their skills and knowledge. They may have different strengths and capabilities and working together they may be able to provide a better service for customers. They may also be able to work on larger building projects that they could not do on their own as sole traders.

The partners may also be able to put new money into the business, as well as their existing business assets. Any new money could be used to buy better equipment, which should improve the quality and efficiency of their work.

By creating a larger business with more capital, they may therefore be able to achieve more success and growth in their business.

However, there would be some problems and difficulties. As partners in a business, they would have to agree how much capital each partner should put into the business, and how they should share the profits. When each partner puts in assets other than money (such as their existing equipment), they must agree on the valuation of the assets, because this affects the value of heir capital contribution.

They also need to agree on who should have authority to make decisions without the prior approval of the other partners. In law, one partner is able to commit the business to obligations, and all the partners are then liable. The partners must therefore be able to trust each other.

They will also have to agree other terms, such as what should happen if one partner wishes to leave the partnership at some time in the future. Reaching agreement on all these matters may be difficult, and the terms of the partnership agreement should be recorded in a partnership deed, for which there will be some cost to prepare.

1.3 Co-operative societies

Co-operatives are formed by a number of small business owners, with the intention of working collectively for the economic and social benefits of all the members. In Zambia, many co-operatives have been formed by farmers, to preserve and develop their farming businesses.

Capital for the co-operative is raised from the members, and this is used to pay for their collective activities. This may include the purchase of equipment that the members can use.

They are voluntary organisations, and anyone may join. All fairly large number of members is needed to raise enough capital to finance the organisation's activities. Decisions are taken democratically, with each member getting one vote in members' meetings.

There are several advantages in creating a co-operative.

(a) A co-operative can combine the agricultural output of all its members, and sell it to a merchant. The merchant may be willing to buy in a large quantity when it would be unwilling to deal with a large number of small suppliers.

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(b) Co-operatives can sell their output to the local community, which may try to support them instead of buying from other suppliers, especially if the co-operative offers better prices.

(c) Co-operatives are able to arrange training for their members, to teach them better skills in operating their business. Members can use their skills to improve the performance of their business.

(d) If a co-operative makes a profit, this may encourage the members to diversify into new business activities, such as milk production or pig rearing. It may also be possible to obtain government finance or government support for a new business development.

(e) Co-operatives help communities to develop. There are social as well as economic benefits to be gained.

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ORGANISATIONAL STRUCTURE

chapter 2

In order to achieve its goals and objectives, the work of an organisation has to be divided amongst employees. Some form of structure is necessary to make it possible for effective performance of key activities and to support the efforts of staff. Structure provides a framework for an organisation and also for the way that it is managed.

In most businesses, organisation structure is based on business functions, which are the different types of activity that are carried out, such as manufacturing, distribution, sales and marketing and administration work. Although business functions are the building blocks of organisation structure, businesses with similar functions may be organised and managed in different ways, particularly at the higher levels of management.

Organisation structure also affects the behaviour of the people who work in it, and different types of organisation have different cultures.

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LEARNING OBJECTIVES

- Describe the purpose of core functions of an organisation (3A)
- Identify and explain the basis of developing an organisational structure (3B)
- Explain the types of organisation structures (3B)
- Explain how internal relationships can be organised to deliver strategy (3C)
- Assess the design of structure, processes and relationships (3D)
- Explain organisational culture and behaviour (3E)

1 Core functions of an organisation

In many organisations, organisation structure is based on functional activities. We begin by looking at the core functions of an organisation, including research and development, purchasing, production, service provision, sales and marketing, accounting and finance and human resources management.

1.1 Organisation structure and performance

Business organisations have a structure when they have more than one person working in it. In larger organisations, there is a formal structure for the way in which activities are performed, managed and co-ordinated.

An organisation should have a structure that allows for business activities to be carried out:

- Economically, at a low cost
- Efficiently in the use of resources
- Effectively, so that the organisation achieves its objectives

When there are many people working in an organisation, each doing different jobs, their work must be co-ordinated, monitored and controlled. The organisation structure determines how this work should be divided and managed.

The organisation structure of a business is often based on **business functions** and functional activities. Business functions vary between organisations, according to the nature of their activities. For example, the business functions of a bank differ from those of a manufacturing company, or from the functions of an auditing and accountancy firm. However, some functions are common to most types of business, and the most common functions are described briefly here.

1.2 Research and development

Research and development (R&D) is concerned with developing new products and new processes. Companies need to continue developing and modifying their products, in order to remain competitive. When there is a technical element to the products or the way in which they are made, a company may have a separate R&D function, employing technical specialists.

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PURE RESEARCH is original research to obtain new scientific or technical knowledge or understanding. There is no obvious commercial or practical end in view.

APPLIED RESEARCH is also original research work like pure research, but it has a specific practical aim or application (for example, research on improvements in the effectiveness of medicines and drugs).

DEVELOPMENT is the use of existing scientific and technical knowledge to produce new (or substantially improved) products or systems, prior to starting commercial production operations.

There are two types of R&D:

- Product research and development: this is research into creating new products or improving the quality and design of products.
- Process research and development: this is research into the way that products are made or the processes that are used to deliver services.

For example, car manufacturing companies may carry out product research into improving the efficiency of fuel consumption in cars and also process research into ways of manufacturing cars with more efficient equipment or in a way that creates less environmental pollution.

1.3 The purchasing function

PURCHASING is 'the acquisition of material resources and business services for use by the organisation'.

Some business organisations buy large amounts of materials and services, and organise purchasing as a separate activity, with purchasing managers and full-time buyers. For example, purchasing is a very important function in a retailing company that operates a chain of stores or supermarkets. The ability of the company to sell successfully will depend on the goods that are purchased for resale, their quality and their price.

The objective of purchasing should be to buy:

- The appropriate quantities of materials or services
- Product of the required quality
- At an acceptable price, and
- With suitable arrangements for delivery (for example the timing and location for deliveries)

The purchasing manager's responsibilities

The purchasing manager in a manufacturing company is responsible for:

(a) **Purchases for production.** Purchasing raw materials, components, sub-assemblies, consumable stores and capital equipment for the production function.

(b) **Purchases for administration and other activities.** Purchasing supplies and equipment for all the other areas of the business (for example, buying computers, motor cars, telephone systems, office furniture, paper and other stationery items).

(c) **Cost control.** Ensuring that the organisation gets value for money, and pays a reasonable price for the quality of the goods or services that are purchased.

(d) **Supplier management**. Locating suppliers and dealing with them (for example, discussing prices, discounts, delivery lead times and the specifications for components; chasing late deliveries; authorising payments).

(e) Obtaining **information** on availability, quality, prices, distribution and suppliers for the evaluation of purchasing alternatives.

(f) Maintenance of **inventory levels.**

1.4 Production function

Every manufacturing organisation has a **PRODUCTION FUNCTION**, which makes the goods that the organisation sells.

The production function deals with planning, organising and controlling production activities.

Production management is responsible for longer-term strategic decisions about production and short-term operational cecisions.

(a) **Longer-term decisions**

These are related to setting up the production organisation.

- The selection of equipment and production processes
- Job design and methods
- The location and layout of factories
- Ensuring that the organisation will have the right number of employees with the required skills

(b) **Short-term decisions**

These are concerned with the running and control of production activities:

- Production planning and control
- Labour control and supervision
- Quality management
- Inventory control
- Maintenance and repair activities

1.4.1 Methods of production

The type of business activities undertaken by the organisation are central to the method of production used by the production function. Different methods of production include:

1.4.2 Job production

Job production is used for making a bespoke, unique or similar product, often to order. The workforce required will often be highly skilled, though general purpose tools or machinery are likely to be used. The one-off nature of the items produced and the highly skilled workforce mean that unit costs for items produced in this way would be high.

1.4.3 Batch production

Batch production is used for more standardised items that are aimed at a wider market. A number of items – the batch – will complete each process before moving on to the next. Special purpose machines will usually be required for this production method.

1.4.4 Flow production

Flow production is used for standard items aimed at the mass market and allows products to be manufactured in a continually moving process. This results in a drastic reduction in unit costs and allows economies of scale to be enjoyed in relation to the cost of raw materials, transportation and the automation of the processes. This method of production further reduces costs as it eliminates the need for storage of partially complete items between processes as they move directly from one process to the next.

However, setting up a continuous flow process requires significant capital expenditure and any breakdown in the procedure will create significant loss of output. The set up costs involved with this kind of process makes it only suitable for products for which there is sustainable long term demand.

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1.5 Service operations and functions

Some organisations provide services and do not manufacture products. Service organisations include health care, restaurants, tourism, telecommunication services, financial services, retailing, education and legal services.

Service organisations have the following characteristics which distinguish them from production organisations.

- **Customer involvement.** The surroundings in which the service is provided and the characteristics of that service are therefore vital to enhance the experience of the customer.
- **Time perishable.** It is not possible to store services and are wasted if they are not used. For example an empty seat on a train for a particular journey represents income that is lost forever; that seat, for that journey, will never have been sold.
- **Intangibility.** Production organisations offer customers a tangible product which they can physically see and touch and which remains with the customer for as long as they choose to keep that product. Services, however, are less tangible and the benefits they provide are far more difficult to describe. The benefits of services are more likely to relate to emotions, feelings and the experiences gained.
- **People-oriented.** The operations of service organisations are generally more people-oriented than those of production organisations. It is therefore necessary for this to be taken into consideration when developing the workforce, as the individuals selected will directly influence the customer perceptions of the service provided.
- **Performance measurement.** It can be harder to measure performance effectively for a service organisation as it can be difficult to measure output accurately. For example, the quality of service provided by a professional services firm will be determined in part by the perception of the customer. In addition there is unlikely to be a single important criterion by which to measure performance.

Within a service organisation, there are functions related to the provision of the service. For example, in a firm of accountants, functional activities include auditing, bookkeeping services and tax advice services. Within a company providing education and training services, functions may include classroom teaching and the provision of online learning. Within a telecommunications company, service functions include installation of services and maintenance and repair services.

1.6 Sales and marketing function

The **marketing function** manages an organisation's relationships with its customers.

MARKETING is 'the management process which identifies, anticipates and satisfies customer needs profitably'. *(Chartered Institute of Marketing)*

There are four main aspects of marketing activities.

(a) **Sales and sales support.** The sales and marketing function includes selling, which is the process of persuading customers to buy the products or services offered by the organisation. Selling includes face to face selling by sales representatives, and also selling by telephone, online or by other means. Sales support consists of activities that support selling, such as responding to inquiries, customer database management, organising exhibitions or other sales promotions, and administering agents.

(b) **Marketing communications.** These activities are concerned with bringing products or services to the attention of potential customers and providing information about products and reasons for buying them. It includes activities such as providing brochures and catalogues to support the sales force, and advertising and sales promotions.

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(c) **Operational marketing**. Operational marketing activities include market research, brand management, the marketing aspects of product development and management, and customer relationship management.

(d) **Strategic marketing**. Strategic marketing is concerned with marketing at a strategic level, and the contribution of marketing to the competitive strategy of the organisation. This activity may be found in large companies.

Marketing mix

At an operational level, marketing management is concerned with management of the marketing mix. This can be defined as the '4 Ps':

- Product
- Place
- Price
- Promotion

'**Product**' refers to the features of a product (or service) that are designed to be attractive to customers, and make them want to buy it. Product features include:

- Design (size, shape)
- Features
- Quality and reliability
- Packaging
- Safety
- Ecological friendliness
- What it does
- Image

'**Price**' refers to the basic price of the product, but also other price-related matters such as discounts and credit terms.

'**Place**' refers to the channels through which the product is sold (direct selling by sales representatives, telephone selling, online selling via a website, and so on) and the places where customers can buy it. For a retailing organisation, for example, 'place' is concerned with the location of the organisation's stores.

'**Promotion**' in the marketing mix includes all marketing communications, by which the public knows about the product or service, such as advertising, the use of brochures, sales promotions and public relations.

The extended marketing mix

This is also known as the service marketing mix because it is specifically relevant to the marketing of services, rather than physical products. The intangible nature of services makes these extra three Ps particularly important.

'**People**' are particularly important in service marketing. Front-line staff must be selected, trained and motivated with particular attention to customer care and public relations. In some services, the physical presence of people performing the service is a vital aspect of customer satisfaction. The staff involved are performing or producing a service, selling the service and also liaising with the customer to promote the service, gather information and respond to customer needs.

'**Processes**' can become a marketing advantage in their own right. If an airline, for example, develops a sophisticated ticketing system, it can offer shorter waits at check-in or a wider choice of flights through allied airlines. This both increases customer satisfaction and cuts down on the time it takes to complete a sale.

'**Physical evidence**' concerns the fact that services are intangible: they have no physical substance. The customer has no evidence of ownership and so may find it harder to perceive, evaluate and compare the qualities of service provision, and this may therefore dampen the incentive to consume. This could be addressed through physical representation such as tickets and programs relating to entertainment, or by incorporating evidence into the design and specification of the service environment such as decor, colour scheme, noise levels, background music, fragrance and general ambience.

1.7 Accounting and finance function

There is often an accounting and finance function within an organisation, which carries out administrative functions (such as bookkeeping and providing financial information to management) and also activities at a more senior and strategic level, including financial reporting to shareholders.

Within the accounting and finance function, a distinction can be made between 'financial management' and 'management of finance'.

(a) **Financial management**

  (i) Investment decisions

  (ii) Financing decisions (deciding how to pay for investments and raising money)

  (iii) Dividend decisions (how much to give to shareholders)

  (iv) Operating decisions that affect profits (such as decisions on cost reductions or price increases)

(b) **Management of finance:** the responsibility for the handling of cash, invoices and other financial documents and for recording the affairs of the business in the books of account

There may also be a separate treasury function within a large company. Treasury management is responsible for planning and controlling the **sources and uses of funds**. Treasury activities include:

(a) Cash budgeting: this involves forecasting cash flows on a daily, weekly, monthly, quarterly and annual basis

(b) Arranging finance, such as a bank overdraft facility, to cover expected cash shortages

(c) Possibly, the duties of a cashier, which are making payments to suppliers, paying wages and banking receipts of money from customers

(d) Managing receipts and payments in foreign currency, and possibly taking measures to reduce exposures to foreign currency risks from loses due to adverse exchange rate movements

1.8 Human resource management function

HUMAN RESOURCE MANAGEMENT (HRM) is the process of evaluating an organisation's human resource needs, finding people to fill those needs, and getting the best work from each employee by providing the right incentives and job environment – with the overall aim of helping achieve organisational goals.

The objectives of HRM are to:

(a) Obtain and develop the human resources required by the organisation and to use and motivate them effectively

(b) Create and maintain a co-operative climate of relationships in the organisation, between management and employees

(d) Comply with the legal responsibilities of the organisation relating to its employees (employment law)

The human resource function deals with matters such as:

- Forecasting requirements for employee numbers and skills
- Recruitment of new employees
- Keeping employee records
- Retention of staff (company loyalty, to retain skills and reduce staff turnover)
- Downsizing (reducing staff numbers, when this is a strategic requirement)
- Training and retraining to enhance the skills of the work force
- Pay and terms of employment for employees
- Disciplinary processes
- Dealing with matters relating to employment law

Organisation structure is the way in which the activities and the management of activities are structured within an organisation.

In many organisations, organisation structure is based on functional activities.

The main functions in commercial organisations often include research and development, purchasing, production, service provision, sales and marketing, accounting and finance and human resources management.

EXAM ALERT

Ensure you clearly understand the main roles and activities fulfilled by different organisational functions.

2 Organisational structure

There are different types of organisation structure. Each type of organisation structure has advantages and weaknesses.

Peter Drucker, the management writer, once wrote that organisation structure is significant for how well the business performs. A well-designed organisation structure does not in itself produce good performance, but when there is a poor organisation structure, it is impossible for the organisation to perform well, no matter how good its individual managers may be. Improvements in organisation structure should result in better performance.

John Child, another writer on management, wrote that a good structure provides a framework for allocating responsibilities, decision making, co-ordination of activities, control and rewards for performance. All these are fundamental requirements for the successful performance of an organisation.

Child also described the undesirable consequences of poor organisation structure.

(a) **Low motivation and morale** arising from apparently poor decision-making; ill-defined work roles and responsibilities; management overload; and competing pressure from the different parts of the organisation

(b) **Late and inappropriate decisions** arising from poor information, poor co-ordination, decision-making overload and inadequate review procedures

(c) **Conflict and lack of co-ordination** arising from lack of clarity in goals and objectives; poor teamwork and liaison; and poor communication of changes to plans

(d) **Poor response to new opportunities and external change** arising from failure to plan and failure of awareness of change

(e) **Rising costs** arising from unnecessary layers of senior management, excessive attention to procedure, and the presence of the problems listed above

Such problems may also make it easier for staff to engage in illicit activities of all kinds.

2.1 Simple structure

A simple structure (sometimes referred to as an entrepreneurial structure) is generally found in small organisations with only a few employees. The structure is often informal, and individuals do not have job titles or formal roles. They take orders from the same person, who may be the owner-manager, so that all decision-making is centralised.

A simple structure is flexible, and each employee may be asked to do a variety of different tasks. It is appropriate for sole proprietorships with a small number of employees.

However there are disadvantages with this type of structure:

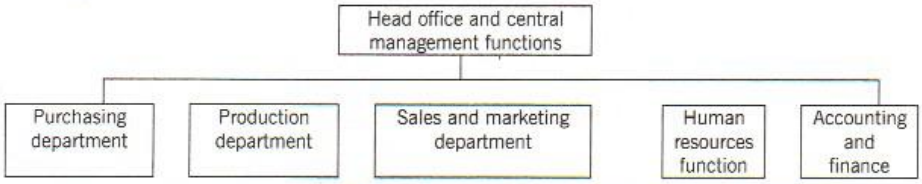
(a) It is effective only in small organisations. It is inadequate and unworkable in large organisations.

(b) Since there are no formal roles within the organisation, and decision-making is centralised in the 'boss', there is a risk that the boss will suffer from 'information overload'. When this happens, the individual is given so much information that he or she cannot take it all in, and so does not make good decisions.

(c) A simple structure is too risky because it depends on one person. If this person becomes seriously ill, or dies, the future of the organisation may be threatened.

2.2 Functional structure (bureaucracy)

A functional structure is organised around functional specialisations, thus structuring an organisation, by grouping similar and related occupational specialities together. A simple functional structure is shown in the diagram below.



In a large organisation, there will be more functional departments, such as Information Technology and R&D.

Departments may also be divided into separate specialist sections. For example, the sales and marketing department may have separate sections for sales, advertising and sales promotion, public relations and customer support services. An accounts department may have separate sections for bookkeeping and financial reporting, management accounting and treasury services.

In a large functional organisation, there may be a hierarchy of departments, sections, sub-sections and sub-sub-sections, each with its own management. Large functional organisations are often referred to as a **bureaucracy**.

Advantages of a functional structure

A functional structure has several advantages.

(a) **Economies of scale can be realised.** When people doing similar work are grouped together, they can share the use of larger and more efficient equipment. This can make them more efficient and productive.

(b) **Benefits of work specialisation.** Organising work on a functional basis means that within each function the work can be specialised. People have greater opportunity for specialised training and they can develop specialised skills, in which they are knowledgeable and efficient.

(c) **Monitoring of the environment is more effective.** Each functional group is aware of developments in its own area of operations and can therefore identify and respond to changes more quickly.

(d) In large organisations, some functional specialisation is necessary, because it is impossible for everyone to be capable and efficient in all aspects of the organisation's activities.

Disadvantages of a functional structure

A functional structure has several disadvantages:

(a) People may care more for their own functional interests than the company as a whole. Their attention to functional tasks makes them lose sight of the objectives of the organisation.

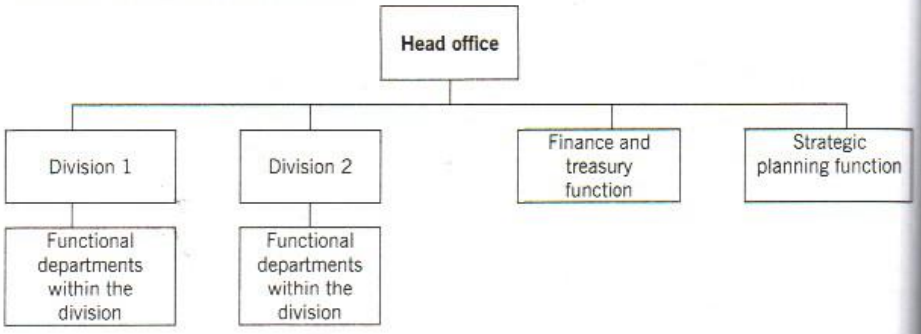
(b) Managers develop functional expertise but do not acquire knowledge of other areas of the business.

(c) There may be conflicts of opinion and conflicts of interest between functional departments, and a lack of communication and co-operation between departments.

(d) A bureaucratic structure may become inefficient because major decisions may require the agreement of several different departments, and this can be a slow process and lead to unsatisfactory compromises.

2.3 Divisional structure

Very large organisations may have a divisional structure, consisting of several divisions or strategic business units. Each division specialises in one area of business operations or a different geographical market. For example, a large manufacturer of food and drinks products may have a food products division and a drinks products division. A company may have a division for its domestic markets and another division for foreign markets. A simple divisional structure is shown below. We return to our discussion of the divisional structure later in this chapter.



2.4 Matrix organisation structure

A **MATRIX STRUCTURE** is an organisational design that combines functional organisation with project managers.

Project managers are responsible for an entire project, and the co-ordination of all the functional activities that are required to complete the project. However, functional managers are responsible for each of the different functions in the organisation. The following diagram illustrates the key features of a matrix structure.

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Matrix structures

EXAMPLE

An example of a matrix structure is a company that makes products for, or provides a service to, large clients. Project managers (or client managers) may be employed to ensure that the orders of a customer are fulfilled on time and in accordance with the customer's requirements. There may be functional departments for purchasing, production planning, production operations, accounting and distribution and delivery. Each functional department will deal with the work for many customers and many orders: the project managers try to ensure that the activities of the functional departments are properly co-ordinated to deal with the customers for which they are responsible.

Matrix structures may also be found in a university or college. There are functional departments, each specialising in a subject area, such as economics and accounting, law, social science, and so on. Each department has its own management structure and administrative functions. Project managers in a university are course managers, who are responsible for organising a particular degree or diploma programme, the teaching content, scheduling of lectures and seminars, booking lecture rooms and seminar rooms and finding lecturers to deliver the teaching.

Advantages of a matrix structure

(a) The structure creates responsibilities for individual customers or projects, as well as responsibilities for functional activities. It should improve the co-ordination of activities between different functions. This may improve efficiency and effectiveness in an organisation where co-operation between functional departments is critically important.

(b) Managers can specialise in particular products, projects or customers.

Disadvantages of a matrix structure

(a) A matrix structure may create a dual chain of command, with some employees taking orders from two bosses – their functional manager and the project manager.

(b) This may create confusion, because employees may not know who they should take orders from. (The primary manager for each employee in a matrix organisation is usually a functional manager.)

(c) Project managers may rely on functional managers for support and co-operation, in order to get employees to do as they ask. They may also need to rely on persuasion to get employees to assist them willingly.

There are different types of organisation structure. Each type of organisation structure has advantages and weaknesses.

In small organisations there is often a simple structure. As organisations grow, they may be organised into a functional structure. A large functional organisation is at risk of becoming an inefficient bureaucracy.

Larger organisations, such as groups of companies, may have a divisional structure, with a central head office and several business divisions. There is a functional structure for each division and some additional functional specialisations for the entire company at head office.

Organisations may have a matrix structure, which combines functional specialisation with project managers.

EXAM ALERT

Make sure that you can explain the key features of different organisational structures as this could easily appear in either a Section A or Section B question in the exam.

3 Internal relationships

Internal relationships are the working relationships between the people who work in an organisation. The efficiency of an organisation depends on internal relationships as well as organisation structure.

3.1 Work specialisation (division of work)

Work specialisation means dividing the work within an organisation or functional department so that individuals specialise in particular aspects of the work. In an accounts department, for example, there may be separate jobs for the main ledger bookkeeping clerk, the accounts receivable bookkeeper, the accounts payable bookkeeper, the invoicing clerk, the payroll clerk and so on.

There is also specialisation within the management structure, based on the organisation structure, so that there are sales managers, marketing managers, accounting and financial managers, HR managers and so on.

The main advantage of work specialisation is that individual employees can acquire extensive knowledge and skills in a particular area of work, with the result that they can:

- Work more efficiently
- Make informed decisions or give informed advice, in a way that is not possible for non-experts

3.2 Chain of command: tall and flat organisations

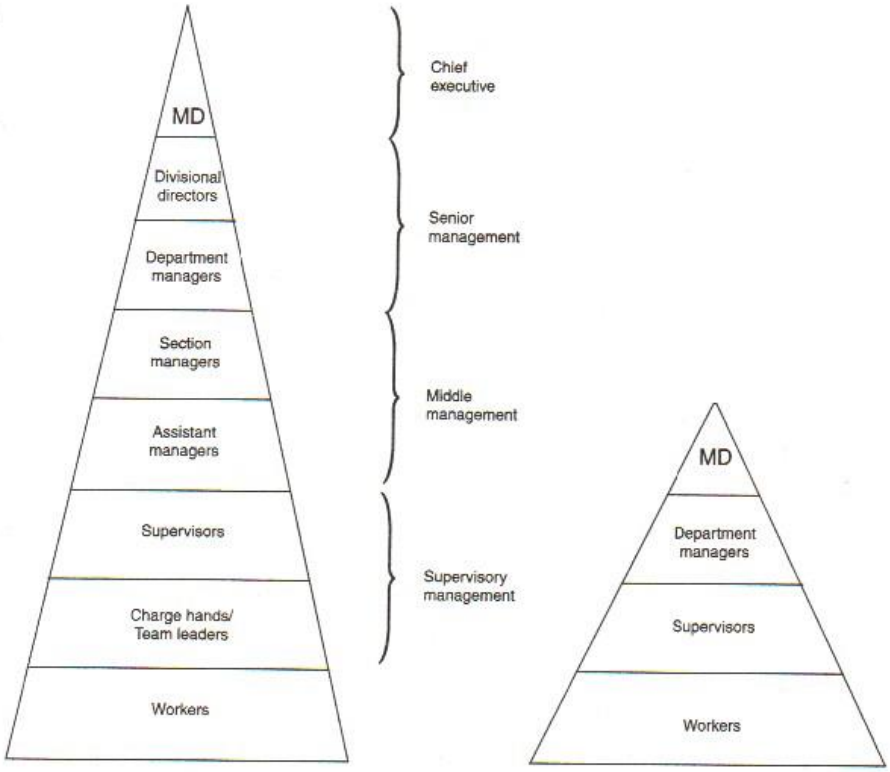
The **CHAIN OF COMMAND** refers to the way in which authority is structured within an organisation, and who individuals should take orders from. The chain is the command structure from the top of the organisation to the most junior employees at the bottom. The chain of command is sometimes called the **scalar chain.**

Within a large functional or divisional organisation, there may be many levels (or 'links') in the chain of command. The chief executive officer at head office may be able to give orders to the managing director of a business unit. This managing director may give orders to departmental heads. Departmental heads may give orders to the heads of sections. Heads of sections may give orders to the heads of sub-sections. Heads of sub-sections may give orders to supervisors, who may in turn give orders to junior employees.

A decision by top management may have to go through many levels of management before it reaches employees at the bottom of the hierarchy.

- An organisation with a long chain of command is sometimes called a tall organisation
- An organisation with a short chain of command is sometimes called a flat organisation

The difference between these organisation structures is shown in the diagram below. (MD stands for Managing Director.)



It is generally agreed that decision-making in flat organisations is usually quicker than in tall organisations, and that flat organisations can therefore be more flexible and responsive to problems and opportunities that arise.

Flat organisations may also be preferred by employees, who like to feel that they are close to the decision-making process and may be able to participate more in the decision process.

3.3 Span of control

A span of control is the number of subordinates who report directly to a manager or supervisor. For example, if a manager has five supervisors reporting directly to him, his span of control is five. If one of the supervisors has a group of ten employees, his span of control is ten. This refers to staff in the department who do not report to any other person but the supervisor.

In a large organisation, a narrow span of control results in more levels of management and a tall organisation structure. A wide span of control means a flatter organisation and less management. It should also result in a more efficient and less costly management structure. Computer technology has made it possible to have a wider span of control for work that involves automated processing activities.

However, several factors prevent the span of control from becoming wide:

(a) The nature of the organisation and the complexity of the work and business operations; for complex work, management should usually have a narrow span of control

(b) The ability of managers to deal with a large number of subordinates, and the interruptions to his own work that subordinates cause

(c) The amount of time the manager has available from other activities to spend with subordinates

The performance of an organisation depends partly on its structure, but also on internal relationships between the people who work in it.

Functional organisation structures are associated with work specialisation. Managers and other employees may develop expertise in a specialist area, which may improve the quality of work and decision-making within the organisation.

The relationship between managers and subordinates in an organisation may be analysed by the chain of command (and whether the organisation has a tall or flat management structure) and the span of control.

Delayering means reducing the number of levels in the management hierarchy (chain of command), so that the organisation becomes more flat.

Within an organisation there are both formal relationships and informal relationships. Informal relationships may improve the performance of the organisation or may be harmful.

Formal relationships include line relationships, functional relationships and staff relationships. There are also lateral relationships between managers in different functions or divisions: lateral relationships are informal but can enhance the organisation's performance.

4 Structure, processes and relationships

The performance of an organisation depends on having an appropriate structure for the nature and size of the business, and suitable internal relationships. In addition, there should be efficient decision-making processes. The nature of decision-making within an organisation depends on the extent to which decision-making is centralised or decentralised.

4.1 Centralisation and decentralisation

In a **centralised organisation**, decision-making authority is concentrated in the hands of the senior management (the managers at the centre of the organisation). Centralisation refers to the extent to which people have to refer decisions upwards to their superiors or to managers in the head office of the organisation.

In a **decentralised** organisation the authority to make decisions is spread more widely, and managers who are further from the centre have some decision-making authority. Decentralisation therefore implies increased delegation, empowerment and autonomy at lower levels of the organisation.

In a centralised organisation, senior management may keep some functions under their direct control at head office. For example, there may be a centralised IT department, so that head office has direct control over IT services throughout the organisation. There may also be a centralised HR department and a centralised Treasury function.

There are different degrees of centralisation or decentralisation. It is unlikely (except within a sole proprietorship) that authority and decision-making responsibility will be 100% centralised or 100% decentralised. Some decision-making has to be delegated to subordinate managers; otherwise an organisation would be unable to operate.

Centralisation and decentralisation describe the **extent** to which important decisions are taken by head office management.

4.2 Advantages and disadvantages of centralisation

Centralisation offers greater control and co-ordination of the strategies and activities of the organisation. **Decentralisation** offers greater flexibility in decision-making and making decisions may be based on better understanding of operating conditions.

The table below summarises some of the arguments in favour of centralisation and decentralisation.

In favour of centralisation	In favour of decentralisation and delegation of decision-making authority
Decisions are made by a small group of senior managers and so are easier to co-ordinate.	Avoids giving most senior managers a work load that is too heavy and stressful.
Senior managers are able to take a wider (strategic) view of problems and their consequences.	Improves motivation of more junior managers, who want to be given responsibility.
Senior management can balance the interests of different activities and businesses, for example by deciding on the amount of finance and other resources to allocate to each business activity.	Greater awareness of local problems by decision makers. (Geographically dispersed organisations are often decentralised on a regional/area basis for this reason.)
Quality of decisions is (theoretically) higher due to the superior knowledge and experience of senior managers.	Greater speed of decision making, and response to changing events, since there is no need to refer decisions up to senior management. This is particularly important in rapidly changing markets.
Possibly cheaper, by reducing the number of managers needed.	Helps to develop the skills of junior managers: supports managerial succession.
When a crisis situation develops, key decisions are taken more quickly at the centre.	Separate spheres of responsibility can be identified: controls, performance measurement and accountability are better.
Policies, procedures and documentation can be standardised organisation-wide.	Communication technology allows decisions to be made locally, with information and input from head office if required.

Factors that will influence the extent of centralisation or decentralisation are:

(a) The **size** of the organisation: as an organisation grows in size, more decentralisation in decision-making is needed to retain efficiency.

(b) The **geographical separation** of different parts of the organisation: in an organisation that is spread over a wide geographical area, centralisation is difficult to achieve and decision-making benefits from having local managers with local knowledge in a position to make the decisions.

(c) The **mission** or **objectives** of the organisation. The mission and the objectives of the organisation will drive most decisions relating to its structure and management.

(d) The **nature** and **type** of the organisation. For example, public sector organisations are likely to have a centralised decision-making structure, with many key decisions reserved for senior management or possibly the government.

(e) The **output** that the organisation provided and its markets. For example, service organisations that work on a project basis would require a more decentralised, or even matrix, structure.

(f) The **management style** used in the organisation. Centralised structures tend to suit more bureaucratic organisations, for example.

Ideally, decision-making occurs at the level of the people who are most directly affected and have the most intimate knowledge about the problem. This is particularly important when the business environment is continually changing and decisions have to be made quickly.

2.1 Centralised or decentralised?

QUESTION

Explain whether improvements in telecommunications and computer technology affect the degree to which an organisation should be centralised or decentralised.

4.3 Divisionalisation and decentralisation

In a **divisional structure** some activities are **decentralised** to business units or regions.

DIVISIONALISATION is the division of a business into autonomous regions or product businesses, each with its own revenues, expenditures and capital asset purchase programmes, and therefore each with its own profit and loss responsibility.

Each division of the organisation might be:

- A subsidiary company within a group of companies, under the parent company of the group
- A business division or strategic business unit (SBU) within the larger company

Each division has its own management structure, and may be organised with its own functional departments. For example, each division may have its own production department, sales and marketing department, accounting department and so on. There is also a 'head office' with a central management structure, with responsibility for co-ordinating the strategies and activities for the company (or group of companies) as a whole.

At head office, there may be some specialist functions for the company (or group) as a whole, such as a centralised finance and treasury function, a centralised R&D function, a centralised information technology (IT) function and a centralised strategic planning function.

Successful divisionalisation requires certain key conditions.

(a) Each division must have **properly delegated authority**, and must be held properly accountable to head office (e.g. for profits earned).

(b) Each unit must be **large enough** to support the quantity and quality of management it needs.

(c) The unit must not rely on head office for excessive **management support**.

(d) Each unit must have a **potential for growth** in its own area of operations.

(e) There should be **scope and challenge** in the job for the management of each unit.

(f) If units deal with each other, it should be as an **'arm's length' transaction**.

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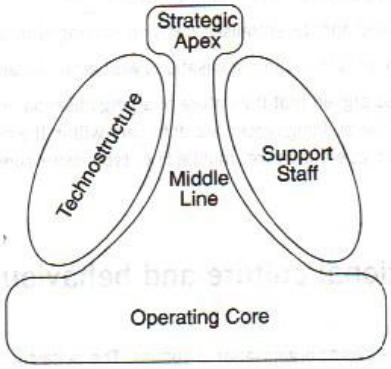
The advantages and disadvantages of divisionalisation may be summarised as follows.

Advantages	Disadvantages
Focuses the attention of management below senior level on business performance	In some businesses, it is impossible to identify completely independent products or markets for which separate divisions can be set up.
Reduces the likelihood of unprofitable products and activities being continued	Divisionalisation is only possible at a fairly senior management level, because there is a limit to how much discretion can be used in the division of work. For example, every product needs a manufacturing function and a selling function.
Encourages a greater attention to efficiency, lower costs and higher profits	There may be more resource problems. Many divisions get their resources from head office in competition with other divisions.
Gives more authority to junior managers, and so grooms them for more senior positions in the future (planned managerial succession)	
Reduces the number of levels of management; the senior executives in each division should be able to report directly to the chief executive of the parent company	

4.4 Mintzberg on organisation structure

Mintzberg, a writer on management and organisation, has suggested that there are five 'building blocks' in an organisation, and the way that the organisation operates depends on which of these elements is dominant.



(a) **Strategic apex**. This is the most senior management of the organisation.

(b) **Operating core**. This consists of the basic operations of the business, and the individuals who carry out this work.

(c) **Middle line**. These are the managers and the management structure that provide the link between the strategic apex and the operating core.

(d) **Support staff**. These are the people who provide support for the operating core, such as secretarial staff, cleaning staff, repair and maintenance staff, and so on. Support may be provided by specialist external organisations.

(e) **Technostructure**. These are staff providing technical support to the organisation and its operations, but who do not have direct line management responsibilities. They include accountants and IT specialists.

Mintzberg argued that the way in which an organisation functions depends on the relative influence of each of these five 'building blocks'.

- When the **strategic apex** is powerful, the organisation is entrepreneurial. The leaders take most of the decisions, including the decisions about strategic direction.
- When the **technostructure** is dominant, the technical experts have a strong influence over the way the organisation is managed. The organisation often operates as a bureaucracy, with strong management emphasis on organising, planning and controlling activities, and a continual search for greater efficiency.
- When the **middle line** is dominant, the organisation is divisionalised and decentralised. Local managers are given extensive authority to run their own division in the way that they consider best.
- Occasionally, but not often, an organisation is dominated by the **operating core**. This can only happen when the employees in the operating core are highly-skilled and are therefore in a position to make decisions about what they should be doing. This may occur in hospitals, where the doctors can have a very strong influence.
- Mintzberg identified a type of organisation that he called an 'adhocracy'. This has a complex and disordered structure that makes extensive use of project-based work to produce innovations. Adhocracies, which are found in a complex and dynamic business environment, may establish working relationships with external organisations of expert consultants. The '**support staff**' building block in the organisation structure can therefore be very important.

The performance of an organisation depends partly on efficient decision-making processes.

Decision-making authority within an organisation may be centralised or decentralised. There are degrees of centralisation and decentralisation.

Both centralised and decentralised decision-making structures have advantages and weaknesses.

Decentralisation is found in organisations with a divisional structure.

Mintzberg has argued that the nature of an organisation and its decision-making structures depends on which of five building blocks are dominant within the organisation. The building blocks are a strategic apex, operating core, middle line, technostructure and support staff.

5 Organisational culture and behaviour

This section explores organisational culture. The behaviour and attitudes of individuals are strongly influenced by their culture. Some cultural attitudes are held strongly and are difficult to change.

5.1 Culture

CULTURE is 'the collective programming of the mind which distinguishes the members of one category of people from another' *(Hofstede)*. It may be identified as ways of behaving, and ways of understanding, that are shared by a group of people.

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Culture may therefore be identified as ways of behaving, and ways of understanding, that are shared by a group of people. Referring to it as: 'the way we do things round here', Edgar Schein has written that organisational culture matters because cultural elements determine business strategy, goals and methods of operating.

Elements of culture

Schein suggested that there are different levels at which culture can be understood. For Schein, the culture of an organisation is very difficult to change. Culture can last far longer than the products that the organisation sells, its founders and its leaders. He identified three determinants of culture:

(a) The first level. These are **observable expressions of culture**.

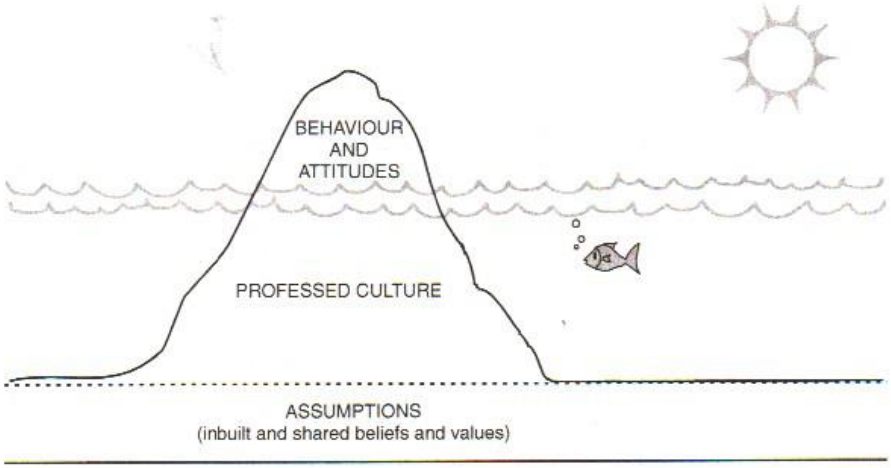
  (i) **Behaviour**: People behave in similar ways and have similar ways of dealing with other people. There are established norms of behaviour; and customs and rules about behaviours that are 'acceptable' or 'unacceptable'.

  (ii) **Artefacts**: Culture may also be expressed in terms of the architecture of the buildings in which the organisation is located, interior design of office premises, dress codes and other symbols.

  (iii) **Attitudes**: There are patterns of collective behaviour such as greeting styles, business formalities, social courtesies and ceremonies.

(b) The second level. Beneath these observable aspects of culture there are **values and beliefs** which are the professed culture of the organisation. These values and beliefs give the behaviours and attitudes of employees their special meaning and significance. For example, the design of office space may imply status and honour, or reflect the importance of privacy within a culture: it 'means' more than the observable features. Values and beliefs may also be expressed in slogans or the mission statement.

(c) The third level. Beneath values and beliefs lie **assumptions**: these are 'unspoken rules' that are no longer consciously recognised or questioned, but which 'programme' the ways in which the organisation and the people in it think and behave.



5.2 Organisation culture

ORGANISATION CULTURE may be defined as:

- 'The collection of traditions, values, policies, beliefs and attitudes that constitute a pervasive context for everything we do and think in an organisation' (Mullins).
- 'A pattern of beliefs and expectations shared by the organisation's members, and which produce norms which powerfully shape the behaviour of individuals and groups in the organisation' (Schwartz & Davies).
- 'The way we do things around here' (Schein).

Manifestations of culture in an organisation may include:

- How formal the organisation structure is
- Communication: are senior managers approachable?
- Office layout
- The type of people employed
- Management style
- Freedom for subordinates to show initiative
- Attitudes to quality
- Attitudes to risk
- Attitudes to the customer
- Attitudes to technology

2.2 Manifestations of culture

QUESTION

What do you think would differentiate the culture of:

- A regiment in the Army?
- An advertising agency?

5.3 Influences on organisation culture

Influences on the culture of an organisation include:

(a) The organisation's **founder**. A strong set of values and assumptions is set up by the organisation's founder, and even after he or she has retired, these values remain influential. Or, to put it another way, an organisation might find it hard to shake off its original culture.

(b) The organisation's **history**.

  (i) Culture reflects the era when the organisation was founded.

  (ii) The effect of history can be determined by stories, rituals and symbolic behaviour. They legitimise behaviour and promote priorities.

(c) **Leadership and management style**. An organisation with a strong culture recruits and develops managers who naturally conform to its way of doing things and perpetuate the culture.

(d) The **organisation's environment**. As we have seen, nations, regions, occupations and business types have their own distinctive cultures, and these will affect the organisation's style.

Cultural values can be used to guide organisational processes without the need for tight control. They can also be used to motivate employees, by emphasising the heroic dimension of the task. Culture can also be used to drive change, although – since values are difficult to change – it can also be a powerful force for preserving the status quo.

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5.4 Culture and organisation structure

Harrison classified four types of organisation culture. **Handy** gave the names of Greek Gods to them.

- **Power** culture (Zeus) is shaped by one individual
- **Role** culture (Apollo) is a bureaucratic culture shaped by rationality, rules and procedures
- **Task** culture (Athena) is shaped by a focus on outputs and results
- **Existential** or **person** culture (Dionysus) is shaped by the interests of individuals

Writing in 1972, Harrison suggested that organisations could be classified into four types. His work was later popularised by Charles Handy in his book *'Gods of Management'*. The four types are differentiated by their structures, processes and management methods. The differences are so significant as to create **distinctive cultures**, to each of which Handy gives the name of a Greek God.

Zeus	**Power culture**
	The organisation is controlled by a key central figure, owner or founder. Power is direct, personal and informal. Suits small organisations where people get on well with each other.

Apollo	**Role culture**
	Classical, rational organisation: bureaucracy. Stable, slow-changing, formalised, impersonal. Authority is based on formal position and function in the organisation structure.

Athena	**Task culture**
	Management is directed at outputs: problems solved, projects completed. Team-based, flexible, valuing expertise – to get the job done.

Dionysus	**Person culture**
	The purpose of the organisation is to serve the interests of the individuals who make it up: management is directed at facilitating and administering in the interests of that person.

Power culture

In an organisation with a power culture, there is a dynamic entrepreneur, who may be the owner-director or the founder of the business. There is only a limited amount of formalisation, and there are few rules and procedures.

The power culture is best suited to smaller entrepreneurial organisations, where the leaders have direct communication with all employees. People within the organisation have to get on well with each other for this culture to work.

Role culture

Organisations with a role culture have a formal structure, and operate by means of well-established rules and procedures. This bureaucratic style can be very efficient in a stable environment, when the organisation is large and when the work is predictable.

Task culture

In an organisation with a task culture, the role of management is seen as completing a succession of projects or solving problems. The task culture is reflected in project teams and task forces. In such organisations, there is no dominant or clear leader. The principal concern is to get the job done. Therefore the individuals who are important are the experts with the ability to accomplish a particular aspect of the task.

Performance is judged by results. Task cultures are expensive, because employees are experts and as experts may demand a high salary.

Person culture

A person culture is found in an organisation whose purpose is to serve the interests of one or more of the individuals within it. These organisations are rare. An example may be a small company that exists to provide support and assistance to a wealthy individual. The employees may be called secretaries, administrators, assistants, bursars, registrars or clerks. The performance of the organisation depends on the talent of these individuals.

The behaviour and attitudes of individuals are strongly influenced by their culture. Some cultural attitudes are held strongly and are difficult to change.

In the same way, organisations develop cultures that are adopted by the people who work for them. Culture affects the way people interact with each other, the way they perform their duties and the way that they are managed.

There can be a close connection between the culture of an organisation and its organisation structure. Different types of culture are found in organisations with different structures.

EXAM ALERT

Organisational culture is an important area in D7, therefore you need to be comfortable with the key themes explored in the last section.

Chapter Roundup

- Organisation structure is the way in which the activities and the management of activities are structured within an organisation.
- In many organisations, organisation structure is based on functional activities.
- The main functions in commercial organisations often include research and development, purchasing, production, service provision, sales and marketing, accounting and finance and human resources management.
- There are different types of organisation structure. Each type of organisation structure has advantages and weaknesses.
- In small organisations there is often a simple structure. As organisations grow, they may be organised into a functional structure. A large functional organisation is at risk of becoming an inefficient bureaucracy.
- Larger organisations, such as groups of companies, may have a divisional structure, with a central head office and several business divisions. There is a functional structure for each division and some additional functional specialisations for the entire company at head office.
- Organisations may have a matrix structure, which combines functional specialisation with project managers.
- The performance of an organisation depends partly on its structure, and also on internal relationships between the people who work in it.
- Functional organisation structures are associated with work specialisation. Managers and other employees may develop expertise in a specialist area, which may improve the quality of work and decision-making within the organisation.
- The relationship between managers and subordinates in an organisation may be analysed by the chain of command (and whether the organisation has a tall or flat management structure) and the span of control.
- Delayering means reducing the number of levels in the management hierarchy (chain of command), so that the organisation becomes more flat.
- Within an organisation there are both formal relationships and informal relationships. Informal relationships may improve the performance of the organisation or may be harmful.
- Formal relationships include line relationships, functional relationships and staff relationships. There are also lateral relationships between managers in different functions or divisions: lateral relationships are informal but can enhance the organisation's performance.
- The performance of an organisation depends partly on efficient decision-making processes.
- Decision-making authority within an organisation may be centralised or decentralised. There are degrees of centralisation and decentralisation.
- Both centralised and decentralised decision-making structures have advantages and weaknesses.
- Decentralisation is found in organisations with a divisional structure.
- Mintzberg has argued that the nature of an organisation and its decision-making structures depends on which of five building blocks are dominant within the organisation. The building blocks are a strategic apex, operating core, middle line, technostructure and support staff.
- The behaviour and attitudes of individuals are strongly influenced by their culture. Some cultural attitudes are held strongly and are difficult to change.

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- In the same way, organisations develop cultures that are adopted by the people who work for them. Culture affects the way people interact with each other, the way they perform their duties and the way that they are managed.
- There can be a close connection between the culture of an organisation and its organisation structure. Different types of culture are found in organisations with different structures.

Quick Quiz

1 Choose the correct word to fill in the blank: planning, production, promotion

The ..... function plans, organises and controls the necessary activities to provide products and services.

2 Marketing is the management process which identifies, anticipates and satisfies customer needs, regardless of expense. **True or false?**

3 Which **two** of the following are roles of the finance function?

A To provide information to managers for decision-making
B To ensure compliance with social and legal responsibilities
C To record and control what happens to money

4 When the span of control in an organisation becomes more narrow, and the organisation continues to employ the same number of people, the organisation will:

A Become more centralised
B Be delayered
C Increase work specialisation
D Become taller

5 A manager in the accounting department provides financial advice to a senior manager in the operations department, as part of the formal process of advising on proposed capital investment projects. What type of relationship exists between the accounting manager and the operations manager?

A Line relationship
B Lateral relationship
C Functional relationship
D Staff relationship

6 According to Mintzberg which part of the organisation structure is most dominant in a bureaucratic organisation?

A Technocracy
B Strategic apex
C Middle line
D Operating core

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Answers to Quick Quiz

1 Production

2 False. Marketing must be done profitably.

3 A To provide information to managers for decision-making

C To record and control what happens to money

4 D A narrow span of control is associated with a taller organisation and a longer chain of command.

5 C Specialist advisers have a functional relationship with the people they advise in other functional departments.

6 A Mintzberg suggested that the technocracy of specialists (such as accountants) is dominant in a bureaucratic organisation.

Answers to Questions

2.1 Centralised or decentralised?

Improvements in communications mean that it is possible for managers at head office to communicate quickly, and by a variety of methods, with managers in other locations. It also means that managers in distant locations can communicate quickly with head office. It should therefore be possible to operate a global organisation, or a geographically-dispersed company, more efficiently and effectively. This suggests that centralised decision-making should be more easily achieved. In this regard improvements in communications have helped to make decentralisation more controlled as it helps to limit the authority of divisional management.

Developments in IT systems have made it possible to make an organisation's data files accessible to any (authorised) person, no matter where the person or the data files are located. This should make organisations more efficient, no matter whether they have centralised or decentralised decision-making. Managers at head office or in distant locations would have equal access to the data and files that they need.

Communication systems and IT systems improve the integration of organisations, but do not affect the relative merits of centralisation and decentralisation.

2.2 Manifestations of culture

Here are some hints. The Army is very disciplined. Decisions are made by officers; behaviour between ranks is sometimes very formal. The organisation values loyalty, courage, discipline and team work. Symbols and artefacts include uniforms, medals, regimental badges and so on. Rituals include corporate expressions such as parades and ceremonies.

An advertising agency, with a different mission, is more fluid. Individual flair and creativity, within the commercial needs of the firm, is expected. Artefacts may include the style of creative offices, awards or prizes, and the agency logo. Rituals may include various award ceremonies, team meetings and social gatherings.

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LEARNING OBJECTIVES

- Discuss the fundamental nature of strategy (4A)
- Describe the relationship between different levels of strategy in the organisation (4B)
- Describe how strategy can be implemented in an organisation (4C)
- Assess the micro-environment using a SWOT analysis (4D)
- Explain the purpose of SWOT analysis (4D)
- Assess the macro-environment using PESTEL analysis (4E)
- Explain the purpose of PESTEL analysis (4E)

1 What is strategy?

In this first section we take a look at what a strategy is and how it relates to the mission, vision goals and objectives of an organisation.

A **STRATEGY** is a course of action that is intended to achieve a specified objective with resources that are allocated to it.

A strategic business plan is a plan that sets out the long-term objectives of the business, and the strategies and policies that will be followed in order to achieve those objectives.

A business organisation should have a formal strategy which should show what the business is trying to achieve, and how it will co-ordinate its efforts. For this reason, large companies usually have a formal strategic plan, whereas small businesses might not need one. Without a formal business plan, managers in a large company may have different ideas about what they should be doing, and may work at cross-purposes. The intentions of top management may not be communicated clearly to those people at lower levels in the organisation hierarchy who are expected to put the strategies into action.

1.1 Strategic decisions

Johnson, Scholes and Whittington in their text *Exploring Corporate Strategy* defined strategy as follows:

'**Strategy** is the **direction** and **scope** of an organisation over the **long term** which achieves **advantage** in a **changing environment**, through its configuration of **resources** and **competences** with the aims of fulfilling **stakeholder expectations**.'

They argued that there are six areas of decision-making that should be considered 'strategic'.

(a) Decisions affecting the **long-term direction** that the business should take. 'Long-term' in practice usually means planning and implementing strategies for up to the next five years, or possibly longer.

(b) Decisions about the **scope of an organisation's activities**. This includes decisions about the overall role and purpose of the organisation and also the activities it should undertake to achieve this purpose. Strategic planning covers the entire organisation.

(c) For commercial business organisations, strategy should be about gaining some kind of **advantage in competition**. Businesses operate in a competitive environment.

(d) Strategic management in some organisations takes the form of **adapting the activities of the business to fit the environment in which it operates**. An example of this is making decisions to

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change the products and services that the business produces and provides, to meet the changing requirements of its customers.

(e) A different approach to strategy is to **exploit unique resources** and the **special competences** of its employees.

(f) Strategic decisions are affected by the **values and expectations** of all of the organisation's **stakeholders** and should take into consideration the expectations of the major stakeholders.

1.2 Characteristics of strategic decisions

Strategic decisions have some characteristics that make them different from other decisions by business managers.

(a) Decisions about strategy are often **complex** because there are a number of significant factors to take into consideration and different possible outcomes that could happen.

(b) There is usually a large degree of **uncertainty** about the likely consequences of any strategic course of action.

(c) Strategic decisions affect **operational decision-making** at lower levels in the organisation.

(d) Strategic decisions affect the organisation as a whole and require cooperation and collaboration between different functions and operations within the business. An **integrated approach** is therefore required for planning and strategy implementation.

(e) Strategic decisions often lead to **changes** within the organisation, affecting the size of the organisation, its activities and the people who work for it.

1.3 Mission, goals and objectives

MISSION is the organisation's overriding purpose; it reflects the values or expectations of stakeholders and answers the question 'what business are we in?'

VISION or strategic intent is the future state desired by the organisation's strategists: they aim to guide the organisation's collective aspiration toward it.

A **GOAL** is a statement of a general aim or purpose that supports the mission. It **may** be qualitative in nature.

An **OBJECTIVE** is a more specific aim or purpose and will probably be quantified.

Some companies identify their mission, or reason why they exist, and express this in a mission statement. A **mission statement** can provide a starting point or a reference point for strategic planning.

Mission statements vary in length and content, but they should set out what the organisation is trying to achieve.

A mission statement for a company may be 'to provide the best quality of airline services to meet the needs of the population of Zambia'.

Alternatively, its mission statement may be 'to provide the best quality of transport services to meet the needs of the population of Zambia'.

The first mission statement indicates that the business will restrict its operations to airline services. The second mission statement suggests that the business will operate other forms of transport services in addition to air transport.

Some companies make a distinction between their mission and their **vision** or strategic intent.

Goals or objectives are more specific than a mission. Goals may be considered more general and less specific than objectives, and in business it is more common to refer to objectives. These are something that the organisation is trying to achieve. At a corporate level, objectives may be to:

- Make a profit, and increase profits each year
- Grow the business by expanding into the markets of other countries, or into other areas of business
- Become the largest competitor in the market

Objectives can also be set at other levels of the organisation or for different functions or activities. For example, an objective of the IT services department in a company may be to provide all offices in the company with broadband services.

Objectives can be expressed in terms of a specific target. A **target** is something that the organisation aims to achieve within a specific period of time. For example, if a company's objective is to grow its profits annually, its target may be to achieve an average growth in profits of 10% each year for the next three years.

First Alliance Bank

EXAMPLE

In 2016 according to its website, the First Alliance Bank stated its **mission** was to:

'To make the Bank the most customer friendly Bank in the country'.

The bank's stated **strategic objectives** were:

- To contribute to the economic growth of Zambia
- To provide personalised customer service aimed at achieving customer delight
- To be steadfast in our relentless pursuit of achieving excellence in our endeavours

As the above extract illustrates by clearly stating its mission and strategic objectives the First Alliance Bank is providing a basis against which its performance can be measured.

Source: First Alliance Bank (2016), *Mission and Strategic Objectives*. [Online]. Available from: http://www.firstalliancebankzambia.com/index.php/about-us [Accessed 7 July 2016].

1.4 A hierarchy of objectives

A simple model of the relationship between the various goals, objectives and targets is a **pyramid** analogous to the traditional organisational hierarchy. At the top is the **overall mission**; this is supported by a small number of **wide ranging goals**, which may correspond to overall departmental or functional responsibilities. For a business, a primary, corporate objective will be the return offered to shareholders, however this is measured. There may be other primary objectives. There will also be supporting objectives for cost reduction or cost control, innovation, and the markets that the business will sell to and the products or services that it will sell.

We owe the concept of a hierarchy of objectives to the management thinker and writer Peter Drucker, who outlined the system now known as **management by objectives** (MBO) in the middle of the 20th century. MBO is still in use as a management tool, though no longer promoted as a universal solution. Its importance is that Drucker was the first person to suggest that objectives should be SMART. SMART stands for the qualities listed below:

Specific	**M**easurable	**A**chievable	**R**ealistic or **R**esults-focused	**T**ime-related

Functions of objectives

The reasons for setting objectives can be remembered using the acronym 'PRIME'.

(a) P - **Planning**: Objectives define what a plan is about and what it should be trying to achieve.

(b) R - **Responsibility**: Objectives define the responsibilities of managers and departments.

(c) I - **Integration**: Objectives should support one another and be consistent with each other, so that the activities and efforts of different departments are properly integrated.

(d) M - **Motivation**: Managers need to know what their objectives are before they can be motivated to achieve them. Objectives must be created for all areas of performance.

(e) E - **Evaluation**: Performance is assessed by comparing actual results with objectives (targets), and where appropriate control measures can be taken.

Senior management are responsible for formulating strategies for their business.

A strategy is a course of action for achieving a specified objective.

The strategies for a business may be set out in a formal business plan.

Planning at a strategic level is concerned with long-term objectives, the scope of the business activities of the organisation and achieving a competitive advantage over rival businesses.

The overall objective of an organisation should be to satisfy the expectations of its major stakeholders, especially its owners.

Within a long-term plan there is a hierarchy of strategic objectives. Objectives should be (SMART) specific, measurable, achievable, results-focused (or realistic) and time-related.

2 Levels of strategy

We have looked at what a strategy is, and now we will look at the three levels of strategy: corporate, business and functional strategy.

Within a large organisation, there are several levels or layers of strategy. We can identify three levels of strategy:

(a) Corporate strategy
(b) Business strategy
(c) Functional or operational strategy

The distinction between corporate and business strategy exists because in very large companies, there are business divisions or **strategic business units** (SBUs). Each of these divisions is responsible for a separate part of the company's total business. A corporate strategy is developed for the organisation as a whole and business strategies are developed for each major division or strategic business unit. Operational strategies are then developed for the various parts of the business operations of each strategic business unit.

A smaller company that does not have strategic business units may therefore have just a corporate strategy and functional or operating strategies.

Functional or operational strategies should be developed to support business strategies. Business strategies should support the overall corporate strategy. For all levels of strategy, there should be specific objectives and targets for achievement within the period of time covered by the plan.

2.1 Corporate strategy

CORPORATE STRATEGY is concerned with the overall purpose and scope of the organisation and how value will be added to the different parts (business units) of the organisation.

Corporate strategy should have the following features:

Feature	Comment
Scope of activities	Corporate strategy affects the entire organisation. The activities of all parts of the business operation should support the corporate strategic plan and contribute to the achievement of corporate objectives.
Expectations of stakeholders	The corporate strategy should seek to meet the expectations of stakeholders. The interests and expectations of different stakeholder groups must be prioritised.
Resources	Corporate strategy involves making choices about obtaining resources, now and in the future. In a company that has strategic business units, corporate strategy will also involve decisions about allocating these resources between the different business units.

2.2 Business-level strategy

BUSINESS STRATEGY is about how to compete successfully in particular markets.

Business-level strategy involves making decisions about how to compete in the organisation's markets. These strategies involve making decisions about the products that the business should make, the new products it should develop, and the markets in which it should be trying to sell its products. (This is sometimes called product-market strategy.)

In a company with strategic business units, each business unit develops a business strategy for its own business. Each business should also set financial objectives and develop business strategies for achieving those objectives.

Strategic choices are made at both the **corporate** and **business strategy** level. At the level of the strategic business unit, these choices are about how to achieve **competitive advantage** and are based on an understanding of **customers and markets**. At the corporate level, strategy is primarily about **scope**: this is concerned with the overall portfolio of products and businesses of the organisation, the spread of markets and the relationship between business units and the corporate centre (head office or corporate headquarters).

2.3 Operational strategy

OPERATIONAL STRATEGIES are concerned with how the component parts of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people.

There should be functional or operational strategies for each important part of the organisation's operations.

Function	Comment
Marketing	Strategies may involve developing products and services; and pricing, promoting and distributing them, in order to satisfy customer needs at a profit. Marketing and corporate strategies are interrelated.
Production	Strategic decisions may involve decisions about factory locations, manufacturing techniques, improving capacity, to mention but a few.

Function	Comment
Finance	Financial strategy involves making plans for the organisation to have enough financial resources to fund its other strategies, by identifying sources of finance and ways of using them.
Human resources management	Human resources strategy deals with how to recruit and retain managers and other employees with the right skills in the right quantity at the right time.
Information systems	Information systems are becoming an increasingly important part of business operations, as an item of expenditure, as administrative support for other departments and as way of gaining competitive strength. IT strategy involves long-term planning for the development and improvement of IT services within the organisation.
R&D	Research and development strategy is concerned with setting objectives and making plans for the development of new products or services. There should also be strategic plans for the amount of resources to invest in R&D and deciding how R&D resources should be used and targeted.

3.1 Level of strategy

QUESTION

ABC Meat Company is a listed company that makes and sells meat products. The finance director says: 'We plan to issue more shares to raise money for new plant capacity will enable us to enter new markets throughout Africa. We don't want loan finance. We have promised the shareholders 5% profit growth this year, but trading is tough.'

Identify the **corporate**, **business** and **functional** strategies in the above statement.

3.2 Corporate, business and functional level strategies

QUESTION

What is the difference between corporate and business level strategies? How does a functional strategy differ from a business level strategy?

Strategic planning and the implementation of strategic plans happen at different levels within an organisation.

For companies that have a divisional structure with strategic business units, strategy is developed for the organisation as a whole (corporate strategy), for each business division (business strategy) and at the functional or operational level within each business (functional or operational strategies).

3 Implementing strategy

Strategic plans must be implemented. To implement corporate strategy, there must be business strategies and objectives. To achieve business strategies there must be functional or operational strategies. This section considers how we implement strategic plans.

Strategy implementation involves:

(a) Making individual managers responsible for each part of the strategy and for the overall strategy
(b) Formulating detailed plans for each strategy and setting targets for each plan
(c) Ensuring that managers have the resources to achieve their planned targets

Strategies must be made to work in practice. Important considerations for strategy implementation are **structuring**, **enabling** and **change**.

(a) **Structuring**. There must be an organisation structure, with systems and processes, for implementing plans. Plans cannot be implemented if there is no organisation structure, systems and procedures for putting them into practice, and for co-ordinating and managing activities.

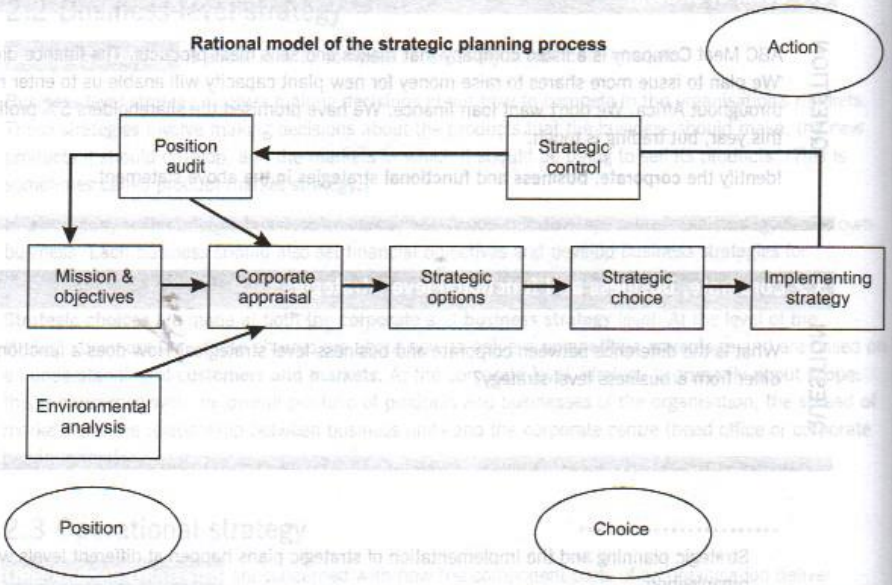
(b) **Enabling**. There must be sufficient resources available – money, materials, people and equipment – to implement the strategic plans and achieve the strategic objectives.

(c) **Change**. Change is often a consequence of new business strategies, and the problems of managing change is an important feature of successful strategic implementation.

3.1 A rational model

Johnson, Scholes and Whittington have suggested that there is a rational model for thinking about strategy development and implementation. This rational model is illustrated below.

Rational model of the strategic planning process



The strategic management process is a continual cycle of planning, strategy implementation, control and review.

(a) Corporate appraisal involves deciding what the organisation is capable of achieving and what its strategic objectives should be. Different strategies for achieving the corporate objectives are considered, and the preferred strategies are selected.

(b) Strategies are implemented, at the corporate, business and operational or functional levels. New strategies may involve making changes within the organisation.

(c) The performance of the organisation should be monitored, at a strategic level, to assess whether the strategic objectives are likely to be achieved. Where necessary, strategic control action may be necessary.

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(d) Senior management should review the position of the organisation, after the implementation of its strategies and assess how its position has changed. Management should also review the business environment, and identify changes in the environment that may be of strategic significance.

(e) The process of developing new strategic plans, or revising existing plans, can then begin again.

Strategic plans must be implemented, at corporate, business and operational/functional levels.

A rational model for strategic planning is a continual cycle of planning, implementation and control. It begins with identification of mission and corporate objectives, and an assessment of the internal and external environments of the business. Alternative strategies are considered and a choice is made of the preferred strategies. These strategies are then implemented. There must then be a monitoring process, to assess the success of the chosen strategies, and corrective action should be taken where it is needed. There is no one correct business valuation. It makes sense to use several methods of valuation, and to compare the values they produce.

4 Assessing the micro-environment

As part of the process of strategic review and strategic planning, managers should make an assessment of the micro-environment in which the organisation operates. This assessment may take the form of a position audit. The strengths and weaknesses identified as part of the position audit form part of the organisations SWOT analysis.

The **MICRO-ENVIRONMENT** of an organisation refers to the industry in which it operates, its customers, suppliers and competitors, and the resources that it has available for achieving its business objectives. Management should continually review and assess the micro-environment of their business. To develop a strategic plan, an organisation's management must be aware of the current position of the organisation.

To assess the current position of the organisation management may conduct a **position audit**.

A **position audit** is an assessment of all aspects of the organisation's capabilities. It leads to a summary of strengths and weaknesses. These strengths and weaknesses flow into the organisations SWOT analysis (covered in Section 5).

An organisation does not have unlimited resources, and it has strengths and weaknesses. It does some things well and is weak in other areas. A position audit helps to identify what these strengths and weaknesses are.

4.1 Resource audit

A **RESOURCE AUDIT** is a part of a position audit, which looks at the resources available to the organisation, and their strengths and weaknesses.

Resource	What a resource audit might look at
Machinery	Age, condition, utilisation rate, technologically up to date? Cost, replacement value.
Intangible assets	Patents, brands.
Management	Size, skills, loyalty, career progression, structure.
Management information	Ability to generate and disseminate ideas, innovation, information systems.

Resource	What a resource audit might look at
Products	Range of products, their quality, customer satisfaction with products, research and development.
Raw materials	Source, suppliers, cost, wastage rates, alternative materials, availability and security of future supplies, recycling.
Employees	Numbers, skills and experience, capabilities, wage costs, efficiency, labour turnover, industrial relations.
Operating methods	How are activities carried out? Capital-intensive or labour-intensive? Modern or out of date? Use of advanced technology? IT?
Finance	Availability of new finance, financial performance of the business, cash position, profitability, amount of borrowing and ability to pay.

Resource shortages

A weakness that a resource audit may reveal is a shortage of a critical resource. Such resources will restrict the strategic planning objectives of the organisation in the future, unless strategies can be developed and implemented for overcoming the resource shortage.

Examples may be a shortage of production capacity, a shortage of skilled employees, a shortage of modern equipment, a lack of demand for a product at the existing price, and inadequate investment in research and development.

Ineffective or inefficient use of resources

A resource audit may also show that some key resources are used inefficiently, or they are not being used as well as they could be to achieve the planning targets.

Resource use is both the **efficiency** with which resources are used, and the **effectiveness** of their use in achieving the planning objectives of the business. Resources can be a source of competitive advantage when used efficiently and effectively.

(a) Resource efficiency is concerned with **how well** resources have been used, regardless of the purpose for which they have been used. For example, labour efficiency is concerned with how much time employees spend idle with nothing to do, or how quickly they perform the tasks that are given to them.

(b) The effectiveness of resource use is concerned with whether the resources have been used in the best possible way **to achieve the goals** of the organisation, or whether the resource use has been misdirected into activities that serve little or no valuable purpose.

4.2 Other industry-specific factors in the micro-environment

Other factors that are specific to the industry in which an organisation operates are also part of the micro-environment. These should also be considered as part of a position audit or strategic review.

(a) **Suppliers.** Suppliers provide the resources that an organisation needs, such as:

  (i) Trade schools and universities supply skilled human resources

  (ii) Producers, wholesalers and distributors supply materials and other organisations provide services such as energy and telecommunications services

  (iii) Consultancy firms and research firms supply information

  (iv) Banks and other financial institutions provide finance

Suppliers are also important to the organisation for reasons beyond the resources they provide. They may raise their prices or provide poor quality goods and services. Labour unions may go on strike or demand higher wages. Workers may produce defective work. Suppliers may therefore have the power or

capability to reduce an organisation's profits, particularly if the organisation cannot pass on price increases to its customers.

As a strategic objective, management should seek to ensure an adequate flow of the supplies that it needs at a fair price consistent with the development and protection of long-term relationships with key suppliers.

(b) **Customers** justify the existence of an organisation. Business organisations exist because they have goods or services that customers want to buy. The power of customers depends on how much they buy, what they buy and the availability of substitutes in the market.

(c) **Competitive environment.** Business organisations operate in a competitive environment. Competition exists in almost every industry even those dominated by major companies. Examples are the competition between Coca Cola and Pepsi Cola; National Breweries against Chat Breweries; milling companies such as National Milling Corporation, Simba Milling, Chimsoro Milling, and so on. Management need to consider the competitive environment when developing their business strategies, and consider ways in which their organisation can compete successfully and achieve its corporate objectives.

As part of the process of strategic review and strategic planning, managers should make an assessment of the micro-environment in which the organisation operates. This assessment may take the form of a position audit.

A position audit includes a resource audit, and an investigation of the limited availability of key resources and the efficiency and effectiveness of resource use.

The position audit should also examine all suppliers of resources to the business, the customers of the business and the competitive environment.

5 SWOT analysis

The strengths and weaknesses identified as part of the position audit should form part of something known as a SWOT analysis. The SWOT analysis may also be referred to as a corporate appraisal. This is a step in the rational model of strategic planning which was discussed earlier in this chapter.

A **SWOT analysis** brings together an organisation's internal strengths and weaknesses as well as external opportunities and threats so that potential strategies may be developed and assessed. Opportunities and threats are covered in greater detail in the next section when PESTEL analysis is discussed.

The key thing to remember when conducting a SWOT analysis, is that an organisation's strengths and weaknesses come from within, and that opportunities and threats arise from the external environment. An external appraisal identifies opportunities that can hopefully be exploited by matching the organisation's strengths to them. It also seeks to anticipate threats from the micro-environment and the wider macro-environment against which the company must protect itself.

5.1 Internal appraisal: strengths and weaknesses

As we discussed earlier when we looked at the role of the position audit an internal appraisal will identify:

(a) The areas of the organisation that have **strengths** that should be exploited by suitable strategies
(b) The areas of the organisation that have **weaknesses** which need strategies to improve them

The strengths and weaknesses analysis is intended to shape the organisation's approach to the external world. For instance, the identification of shortcomings in products could lead to a programme of product development.

5.2 External appraisal: opportunities and threats

An external appraisal involves identifying **opportunities** that can be exploited by the organisation's strengths and also to anticipate environmental **threats**.

Opportunities

(a) What opportunities exist in the micro-environment (and macro-environment)?
(b) What is their inherent profit-making potential?
(c) Can the organisation exploit the worthwhile opportunities?
(d) What is the comparative capability profile of competitors?
(e) What is the company's comparative performance potential in this field of opportunity?

Threats

(a) What threats might affect the organisation or its micro-environment?
(b) How will competitors be affected?
(c) How will the organisation be affected?

A SWOT analysis brings together an organisation's internal strengths and weaknesses as well as external opportunities and threats so that potential strategies may be developed and assessed.

EXAM ALERT

You need to ensure that you understand the key elements of SWOT analysis. It is important to remember that strengths and weaknesses come from within the organisation and that opportunities and threats are external factors.

6 Assessing the macro-environment: PESTEL analysis

Management also need to consider the macro-environment in which the business operates. This section looks at analysis of the macro-environment using PESTEL. The opportunities and threats identified by the PESTEL analysis form part of the organisations SWOT analysis.

The term **MACRO-ENVIRONMENT** refers to general factors in the business environment of an organisation, rather than to the micro-environment of specific customers, suppliers and competitors.

Macro-environmental factors are important for strategic planning for several reasons.

(a) Organisations operate within their macro-environment and interact with it.

(b) Significant changes may occur in the environment that may create a threat to the business or provide a new opportunity to develop the business.

(c) Changes are difficult to predict, but management should be continually on the look out for major changes, and identify them as soon as possible.

As part of the strategic planning process, management should review the various elements in its macro-environment, and assess the major threats and business opportunities that exist.

PESTEL ANALYSIS is a structured approach to analysing the macro-environment of an organisation, and the threats and opportunities that exist, or may arise in the future. The environmental factors are analysed in six categories, which provide a useful framework for analysis

P – Political

E – Economic

S – Social and cultural

T – Technological

E – Ecological or environmental factors

L – Legal

6.1 Political environment

Political factors can have a strong influence on business entities and other organisations. The long-term business development strategy of a company may depend on factors such as:

- The stability of the political system
- Government policy on the privatisation of state-owned businesses
- The threat of terrorist activity
- The attitude of the government to encouraging investment by foreign companies or joint ventures between local companies and foreign companies
- Government policy on providing financial support to small businesses

Political considerations are particularly important for business entities operating in countries with an unstable political regime, or a dictatorship.

Political factors that can be important for business organisations include general political stability and the attitude of the government to corruption among elected officials. In the past, the business environment in Zambia was affected by the nationalisation of private sector industries by the government.

6.2 Economic environment

Organisations operate in an economic environment that can have an important influence on their business and their strategic plans may be affected by economic conditions and forecasts. Elements of the economic environment include:

- The rate of economic growth
- The availability of skilled and unskilled labour
- The rate of inflation
- Interest rates
- Foreign currency exchange rates
- Rates of taxation
- The existence trade agreements between countries
- The level of foreign investment in the country
- The existence of a good transport system and infrastructure of roads, railways and air transport facilities

The strategic decisions of a company, such as decisions about whether to invest more, may be affected by economic factors such as the availability of skilled labour, attractive rates of taxation or tax allowances, and a stable economy.

6.3 Social and cultural environment

The social and cultural environment of the country in which an organisation operates affects the way that business is done, and the behaviour of employees, customers and others. Elements in the social and cultural environment include:

- The attitudes and values of customers, employees and the general public
- Attitudes to work and the length of the working week
- Attitudes to leisure and what people like to do with their leisure time
- The influence of religion and religious beliefs on social behaviour
- Tribal influences
- The age distribution of the population and the relative numbers of young and old people in society
- Levels of education
- Women in employment and issues of gender equity
- The impact of HIV and AIDS, on the work force and society as a whole

6.4 Technological environment

Technology and technological change have a big influence on organisations and the way in which business is conducted. Developments in computer, internet and mobile technologies in recent years have revolutionised business practice and resulted in the creation of new products and services that customers want to buy. Organisations must respond to technological change in their industry if they are to survive and succeed. Companies that do not react to changes in IT and computerisation risk losing their share of the market to competitors.

Technological change affects some industries more than others. Companies in high technology industries are at greatest risk from technological change, but also may have the biggest opportunities for growth and success, possibly through joint venture agreements with global companies in the same industry.

6.5 Ecological and environmental factors

In recent years, concern for the environment and ecological systems has become an important factor for strategic planning by business organisations. Companies are looking for ways to develop their business in a way that protects the environment and will help to ensure its long-term sustainability. At the same time, many global companies continue to search for minerals and the African continent is an important source of mineral wealth.

For businesses in Africa, there can be difficult strategic choices to make. More investment is needed to develop national economies, but investment may damage the environment and have adverse longer-term consequences.

In some industries, major companies have been trying to develop 'environment friendly' technologies. For example, major oil companies have invested in the development of energy from renewable energy sources, such as water and wind. Motor vehicle manufacturers have been developing electric cars in addition to vehicles which are more fuel efficient. These are examples of strategic responses to changes in the environment.

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6.6 Legal environment

Laws and regulations vary between different countries, and strategic decisions by companies are influenced by current laws and regulations, and concerns about future changes. There are many laws and regulations affecting business, including:

- Company law
- Employment law
- The law of contract
- Health and safety laws
- Tax laws

Decisions by foreign companies about investing in a country may be affected by their views about the efficiency and fairness of the legal system. Their assessment will indicate if they would be able to seek justice through the courts in the event of any dispute.

6.7 Limitations of PESTEL analysis

PESTEL analysis is a helpful framework for identifying and assessing the external influences on business, and the threats and opportunities that these create. However, there are limitations to the value of the technique.

- It is fairly easy to use PESTEL analysis to describe environmental influences that exist today, or that have existed in the past. Strategic planning, however, is concerned with the future and it might not be easy to identify the key factors that will affect the business environment in the future, or what their effect will be.
- It is a method of qualitative analysis. It does not quantify the significance of environmental factors. It may even be difficult to compare environmental factors and decide which is more significant than others.
- It is a tool for analysis by management, but it does not provide any answers to problems.

PESTEL analysis provides a framework for analysis of the macro-environment of a business.

PESTEL analysis involves an assessment of opportunities and threats of political, economic, social and cultural, technological, ecological and legal factors in the business environment.

EXAM ALERT

PESTEL is a popular examination topic, ensure you know the theory and are able to assess the environment of an organisation using this technique.

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Chapter Roundup

- Senior management are responsible for formulating strategies for their business.
- A strategy is a course of action for achieving a specified objective.
- The strategies for a business may be set out in a formal business plan.
- Planning at a strategic level is concerned with long-term objectives, the scope of the business activities of the organisation and achieving a competitive advantage over rival businesses.
- The overall objective of an organisation should be to satisfy the expectations of its major stakeholders, especially its owners.
- Within a long-term plan there is a hierarchy of strategic objectives. Objectives should be (SMART): specific, measurable, achievable, results-focused (or realistic) and time-related.
- Strategic planning and the implementation of strategic plans happen at different levels within an organisation.
- For companies that have a divisional structure with strategic business units, strategy is developed for the organisation as a whole (corporate strategy), for each business division (business strategy) and at the functional or operational level within each business (functional or operational strategies).
- Strategic plans must be implemented, at corporate, business and operational/functional levels.
- A rational model for strategic planning is a continual cycle of planning, implementation and control. It begins with identification of mission and corporate objectives, and an assessment of the internal and external environments of the business. Alternative strategies are considered and a choice is made of the preferred strategies. These are implemented. There must then be a monitoring process, to assess the success of the chosen strategies, and corrective action should be taken where this is needed. There is no one correct business valuation. It makes sense to use several methods of valuation, and to compare the values they produce.
- As part of the process of strategic review and strategic planning, managers should make an assessment of the micro-environment in which the organisation operates. This assessment may take the form of a position audit.
- A position audit includes a resource audit, and an investigation of the limited availability of key resources and the efficiency and effectiveness of resource use.
- The position audit should also examine all suppliers of resources to the business, the customers of the business and the competitive environment.
- A SWOT analysis brings together an organisation's internal strengths and weaknesses as well as external opportunities and threats so that potential strategies may be developed and assessed.
- PESTEL analysis provides a framework for analysis of the macro-environment of a business.
- PESTEL analysis involves an assessment of opportunities and threats of political, economic, social and cultural, technological, ecological and legal factors in the business environment.

Quick Quiz

1 Link the four terms with their respective definitions:

Terms		Definitions	
A	Vision	E	A general aim
B	Objective	F	The purpose of an organisation
C	Goal	G	The desired future state of the organisation
D	Mission	H	A specific aim, often quantified

2 A decision by a company to invest in the development of a major new product for its market is an example of:

A A corporate strategy decision
B A business strategy decision
C An operational strategy decision
D A functional strategy decision

3 Put the following elements in a rational strategic planning model into their sequence.

A Strategic choice
B Position audit
C Strategic control
D Define objectives
E Strategic options
F Strategy implementation

4 What does a position audit help management to identify?

A Opportunities and weaknesses
B Strengths and threats
C Threats and opportunities
D Weaknesses and strengths

5 Which one of the following is most likely to be identified as an economic factor in the macro-environment of a business?

A An efficient road transport system
B Strong business competitors in the industry
C Improving levels of education in schools
D Strong demand for a company's products at the existing price

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Answers to Quick Quiz

1 G is a definition of A. H is a definition of B. E is a definition of C. F is a definition of D.

2 B Business strategies include strategies about what products to make and what markets to try selling them in.

3 D. Define objectives. B. Position audit. E. Strategic options. A. Strategic choice. F. Strategy implementation. C. Strategic control. (There are other elements in the rational model for strategic planning, but this is the sequence of the six elements in the question.)

4 D A position audit helps management to identify strengths and weaknesses in the organisation. Macro-environmental analysis helps management to identify threats and opportunities in the business environment.

5 A Answers B and D are factors in the micro-environment that would be assessed in a micro-environmental analysis. Answer C is a social and cultural factor in the environment, rather than an economic factor.

Answers to Questions

3.1 Level of strategy

The corporate objective is profit growth. The corporate strategy is the decision that this will be achieved by entering new markets, rather than producing new products. The business strategy suggests that those markets include other countries in Africa. An operational or functional strategy is the production strategy to invest in new plant. Another functional strategy is the finance strategy for raising finance to fund the new plant by issuing shares.

3.2 Corporate, business and functional level strategies

Corporate strategy is concerned with the organisation as a whole, and with long-term planning to fulfil the mission of the organisation and achieve its overall corporate objectives. The main corporate objective of a company is usually a financial objective, such as the aim of increasing returns to shareholders. This objective may be quantified, in terms of targets for annual profit growth or annual growth in dividend payments.

A corporate strategy is a plan at the highest level that will enable the organisation to achieve its corporate objectives. For example, a company might need to develop a strategy for obtaining finance to support a corporate strategy of sales and profit growth.

Business strategy is planning at a level below corporate strategy. It is often concerned with making plans for the products that the company intends to make and the markets in which it intends to sell the products in. It is also concerned with gaining a strategic competitive advantage over rival companies, or responding to the threats from rivals.

Examples of business strategy planning may therefore include plans for developing new products, or expanding into new markets, or investing in new technology to gain a technological advantage over competitors. When a company is organised into divisions, and each division produces and sells different products or services, there should be business strategies for each division (or strategic business unit). The objectives for a business strategy may be sales growth, growth in market share and growth in profits for individual products or markets.

Within each business division, there are functional departments or operating units, such as research and development, sales and marketing, distribution, production, technical support services and administration. Functional strategies are strategic plans for individual functions or operations within the business, which should have the purpose of helping the business to achieve its business objectives.

Functional strategies therefore support business strategy, and business strategies should support corporate strategy. This is a hierarchy of strategies in strategic planning.

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PART B: LEADERSHIP, MOTIVATION, CHANGE MANAGEMENT AND HR

THEORIES OF LEADERSHIP

In this chapter, we consider leadership, and the difference between management and leadership. We explain several theories leadership that have been put forward to suggest what styles of leadership there are and which might be the most effective.

The chapter concludes with an explanation of the delegation of authority, and the connection between delegation, authority, responsibility and accountability. These are basic principles of management.

chapter

4

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1 Management and leadership	5A
2 Theories of leadership	5B
3 Styles of leadership	5C
4 Leadership in modern organisations	5D
5 Delegation	5E

LEARNING OBJECTIVES

- Explain the differences between management and leadership (5A)
- Discuss the various theories of leadership: Trait, Behavioural, Style and Contingency theories (5B)
- Explain the nature and uses of different styles of leadership (5C)
- Describe emotional, team and moral leadership (5D)
- Discuss the uses, benefits and possible obstacles to delegation (5E)

1 Management and leadership

In this section we introduce leadership by looking at how it is defined and how it differs from management. Key leadership skills may be identified in a range of interpersonal and business areas.

LEADERSHIP has been defined as:

'The activity of influencing people to strive willingly for group objectives' (Terry).

'Interpersonal influence exercised in a situation and directed, through the communication process, toward the attainment of a specialised goal or goals' (Tannenbaum et al).

The terms 'management' and 'leadership' are often used interchangeably, as if they have the same meaning. However, there are differences between the two terms. Kotter (2001) argues that leadership and management involve two distinct sets of action.

(a) Management is about coping with **complexity**: its functions are to do with logic, structure, analysis and control, and are aimed at producing order, consistency and predictability.

(b) Leadership, by contrast, is about coping with **change**: its activities include creating a sense of direction, communicating strategy, and energising, inspiring and motivating others to translate the vision into action.

Management can be exercised over resources, activities, projects and other essential **non-personal things**. Leadership can only be exercised over **people**.

1.1 Key leadership skills

There is a range of business and managerial skills important to a good leader, including:

(a) **Entrepreneurship**: the ability to spot business opportunities and mobilise resources to capitalise on them

(b) **Interpersonal skills**, such as networking, rapport-building, influencing, negotiating, conflict resolution, listening, counselling, coaching and communicating assertively

(c) **Decision-making and problem-solving** skills, including 'seeing the big picture'

(d) **Time-management and personal organisation**

(e) **Self-development** skills: the ability to learn continuously from experience, to grow in self-awareness and to exploit learning opportunities

1.2 Warren Bennis on leaders and managers

Warren Bennis made a useful distinction between the role of the manager and the role of the leader.

(a) **The manager** administers and maintains, by focusing on systems and controls and the short term.

(b) **The leader** innovates, focuses on people and inspires trust, and holds a long-term view.

The leader innovates and develops, whereas the manager administers and controls. The manager focuses on 'non-people' aspects of systems, whereas the focus of the leader is on providing leadership to people.

Bennis described the manager as someone who **'does things right'** and the leader as someone who **'does the right thing'**.

He studied leadership by examining leaders of every description in the hope of finding some common characteristics. His book *Leaders* (1985) did not conclude that there is one right way to lead, but it does set out common competencies displayed by leaders. Bennis calls them:

(a) The **management of attention**: a compelling cause or vision, to give focus
(b) The **management of meaning**: the ability to communicate
(c) The **management of trust**: being consistent and honest
(d) The **management of self**: being aware of personal weaknesses and strengths

Other tasks of the leader that Bennis sees as important are:

(a) Constantly reminding people why their work is important
(b) Creating an atmosphere of trust
(c) Encouraging curiosity and risk taking in the organisation culture
(d) Fostering an atmosphere of 'hope' which can be particularly helpful when things go wrong

Bennis believes that leadership in the modern age is a **shared task**, with power spread around rather than centralised. It could be that the most important role of modern leaders is deciding who will be in their teams.

The terms 'leadership' and 'management' are often used in the same way, with the same meaning. However, a difference can be made between management and leadership.

Bennis suggested that a leader innovates and develops, whereas a manager administers and controls.

Management focuses on the 'non-people' aspects of systems. The focus of leadership is on providing leadership to people.

Management is mainly short-term in focus, whereas leadership is long-term in outlook.

2 Theories of leadership

There are several **schools of leadership theory**: trait ('qualities') theories, behavioural theories, style theories and contingency theories. We look at some of these in this section.

There are several 'schools' of leadership theory.

School	Comment
Trait theories	Based on analysing the personality characteristics or preferences of successful leaders.
Behavioural theories	Based on analysing the behaviour of leaders and managers, to establish whether some forms of behaviour are more effective than others. There are similarities in this approach with style theories of leadership.
Style theories	Based on the view that leadership is an interpersonal process and different styles of leadership behaviour influence people in different ways. Managers should adopt a leadership style that is most effective.
Contingency theories	Contingency theory is based on the view that there is no 'one best way' of leading, but that the most effective style of leadership depends on circumstances. Effective leaders adapt their behaviour to the specific circumstances in which they find themselves: the nature of the task, the personalities of team members, the organisation culture and so on.

2.1 Trait or 'qualities' theories

Early theories suggested that there are certain **personal qualities** ('traits') that are common to 'great men' and successful leaders. In other words, **'leaders are born, not made'**. Individuals either have the qualities to be a good leader, or they don't.

Various studies have attempted to determine exactly **which** qualities are essential in a leader. One American study cites the following.

- Judgement
- Drive
- Fairness
- Energy
- Initiative
- Human relations skills
- Ambition
- Emotional stability
- Integrity
- Decisiveness
- Dedication
- Co-operation
- Foresight
- Dependability
- Objectivity

Trait theory has been more or less discredited.

(a) The argument that certain traits (or qualities) are absolutely necessary for effective leadership has never been proved or successfully demonstrated.

(b) A very large number of traits that make a good leader have been suggested. There are far too many varied traits to make a convincing theory.

(c) Trait theories ignore the complexities of the leadership situation. Not everyone with the desirable 'traits' turns out to be a good leader.

EXAM ALERT

Ensure you are able to explain the different theories of management covered in this chapter.

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2.2 Blake and Mouton's managerial grid: behavioural theory of leadership

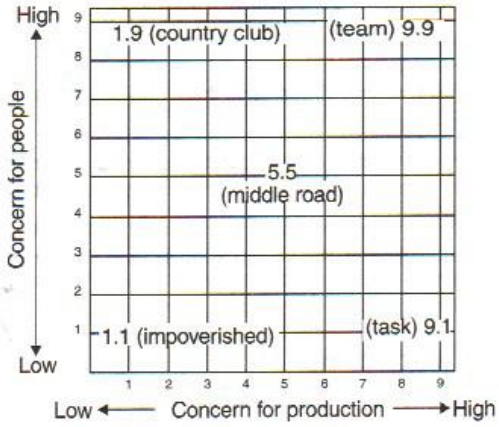
Robert Blake and Jane Mouton carried out research (The Ohio State Leadership Studies) into managerial behaviour and observed two basic dimensions of leadership: **concern for production** (or task performance) and **concern for people.**

Along each of these two dimensions, managers could be located at any point on a continuum from very low to very high concern. Blake and Mouton observed that the two concerns did not seem to correlate, positively or negatively: a high concern in one dimension, for example, did not seem to imply a high or low concern in the other dimension. Individual managers could therefore reflect various permutations of task/people concern.

Blake and Mouton modelled these permutations as a grid. One axis represented concern for people, and the other concern for production. Blake and Mouton allotted nine points to each axis, from one (low) to nine (high).

A questionnaire was designed to enable users to analyse and plot the positions of individual respondents on the grid. This was to be used as a means of analysing individuals' **managerial styles** and areas of weakness or 'unbalance', for the purposes of management development.

The managerial grid



The extreme cases shown on the grid are:

(a) 1.1 **impoverished:** the manager is lazy, showing little interest in either staff or work.

(b) 1.9 **country club:** the manager is attentive to staff needs and has developed satisfying relationships. However, there is little attention paid to achieving results.

(c) 9.1 **task management:** almost total concentration on achieving results. People's needs are virtually ignored.

(d) 5.5 **middle of the road** or the **dampened pendulum:** adequate performance through balancing (or switching between) the necessity to get out work with team morale.

(e) 9.9 **team:** high work accomplishment through 'leading' committed people who identify themselves with the organisational aims.

The managerial grid was intended as an appraisal and management development tool. It recognises that a balance is required between concern for task and concern for people, and that a high degree of both is possible (and highly effective) at the same time.

Evaluating the managerial grid

The grid thus offers a number of useful insights for the identification of management **training and development** needs. It shows in an easily assimilated form where the behaviour and assumptions of a manager may exhibit a lack of balance between the dimensions and/or a low degree of concern in either dimension or both. It may also be used in team member selection, so that a 1.9 team leader is balanced by a 9.1 co-leader, for example.

However, the grid is a simplified model, and as such has practical limitations.

(a) It assumes that 9.9 is the desirable model for effective leadership. In some managerial contexts, this may not be so. Concern for people, for example, would not be necessary in a context of comprehensive automation: compliance is all that would be required.

(b) It is open to oversimplification. Scores can appear polarised, with judgements attached about individual managers' suitability or performance. The grid is intended as a simplified 'snapshot' of a manager's preferred style, not a comprehensive description of his or her performance.

(c) Organisational context and culture, technology and other 'givens' (Handy) influence the manager's style of leadership, not just the two dimensions described by the Grid.

(d) Any managerial theory is only useful in so far as it is useable in practice by managers: if the grid is used only to inform managers that they 'must acquire greater concern for people', it may result in stress, uncertainty and inconsistent behaviour.

There are several **schools of leadership theory**: trait ('qualities') theory, behavioural theory, leadership style theories and contingency.

Trait theories of leadership are based on the belief that certain personal qualities are common to 'great men' or successful leaders. In other words **'leaders are born, not made'**.

Blake and Moulton used a managerial grid to demonstrate different types of managerial behaviour, with differing amounts of concern for the job and concerns for the people doing the job.

3 Styles of leadership

Several theories have been developed based on identifying different styles of leadership and (possibly) suggesting which style might be best. Five theories described here are:

- **Transactional** and **transformational** leaders (Burns and Boyd)
- Lewin, Lippit and White three styles of leadership
- The leadership continuum of Tannenbaum and Schmidt
- The **Ashridge Model**: tells, sells, consults, joins
- Contingency theory of leadership and leadership style

3.1 Transactional and transformational leaders – Burns and Boyd

Some of the values used to distinguish between managers and leaders have also been identified as different styles of leadership (Burns).

(a) **Transactional leaders** see the relationship with their followers in terms of a trade: they give followers the rewards they want in exchange for service, loyalty and compliance.

(b) **Transformational leaders** see their role as inspiring and motivating others to work at levels beyond mere compliance. Only transformational leadership is said to be able to change team/organisation cultures and create a new direction.

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Boyd suggests that the rapid change endemic in the current business environment mandates a new approach to leadership in order to achieve transformation within the organisation as a response. These transformational leaders will be skilled in areas that contrast with some older prescriptions.

(a) **Vision**. The leader will use example and persuasion to convince the group to pursue a new purpose.

(b) **Anticipation**. The leader will possess foresight.

(c) **Value-congruence**. The leader will understand and empathise with group members' needs.

(d) **Empowerment**. The leader will empower group members, so as to make the group more effective.

(e) **Self-understanding**. The leader will be aware of their own needs and goals.

3.2 Lewin, Lippitt and White

In an early study using boys' clubs, Lewin, Lippitt and White identified three styles of leadership.

(a) **Authoritarian**: giving orders, overseeing work activities and giving out criticism and praise on a whim. This style was found to lead to the highest productivity – but also hostility and discontent.

(b) **Democratic**: showing concern for team member welfare, participating in group activities, making suggestions as to what should be done, but allowing team members to make decisions. This kind of leadership was found to lead to the highest work-related communication, motivation and team satisfaction.

(c) **Laissez-faire**: tending to be 'stand-offish', not getting involved in team activities or welfare, and more or less letting the group run itself. This style was least effective – suggesting the need for directing and facilitating/supporting behaviour.

3.3 Tannenbaum and Schmidt: leadership continuum

Another early model of leadership style was developed by Tannenbaum and Schmidt (1958). They identified seven different leadership styles. They did not suggest that one style was the best. However, they did suggest that leaders might begin with a fairly authoritarian style of leadership, and then become more democratic over time as their subordinates gain skills and experience.

They argued that providing leadership has two main elements, an authoritarian element and a democratic element.

- A leader may take all the decisions, and not allow subordinates any decision-making role. Leaders who behave in this way are autocratic and authoritarian.
- A leader may delegate some authority and give members of the group some freedom to make their own decisions. Leaders who behave in this way are democratic.

Leaders may combine some authoritarian elements and some democratic elements in their management style. However, although the leader delegates authority, they must always retain responsibility for the decisions, actions and performance of his subordinates. The seven leadership styles identified by Tannenbaum and Schmidt were as follows:

Style	Characteristics
1 Tells	The manager takes all the decisions for the team or group.
2 Tells and sells	The manager takes the decisions, but then 'sells' the decision to the group – explaining the reason for the decision, but not inviting the team members to ask questions or query the decision.

3 Tells and talks	The manager takes the decisions, and explains the reasons for the decision in detail. They will tell the team members the ideas that led to the decision, and then invite questions. This makes it easier for the team to understand the decision and agree with it.
4 Consults	A manager with a 'consults' style announces a provisional decision and invites the team members to discuss it. They listen to the views of the team members, and may change their decision if they agree with some of the comments and views that they receive. The team members therefore have some influence over decision-making.
5 Involves	A manager with an 'involves' style engages the team members more closely in the decision-making process. Instead of making a provisional decision first, the manager explains the problem to the team, and may suggest some options for a solution. They ask for opinions, including suggestions for other things that might be done. They then decide. This style is appropriate only when the team members have a high level of knowledge and experience.
6 Delegates	With a delegating style, the manager explains the situation or problem to the team members, and asks the team to make a decision about what should be done. All decision-making is delegated, within stated limits. This leadership style requires a very experienced and mature team.
7 Abdicates	This is an extreme form of leadership or management style, whereby the manager leaves everything to the team members, who are left to make the decisions within the stated limits of the manager's own authority. The team members identify the problems, develop options for a solution, make a decision and develop action plans.

3.4 The Ashridge Management College model

The Research Unit at Ashridge Management College distinguished four different management styles. The researchers labelled their styles:

- Tells
- Consults
- Sells
- Joins

(a) **Tells (autocratic)**

The 'tells' style is where the **leader makes all of the decisions** and issues instructions which must be obeyed without question. Quick decisions can be made when speed is required but it does not encourage initiative and commitment from subordinates.

(b) **Sells (persuasive)**

This style is where the leader still makes all of the decisions but believes that **subordinates have to be motivated to accept them** and carry them out properly. Employees are made aware of the reasons for decisions but they may not accept the decisions.

(c) **Consults**

This style is where the **leader confers with subordinates** and takes their views into account but retains the final say. This encourages motivation and employees can contribute their knowledge but it may take much longer to reach decisions.

(d) **Joins (democratic)**

This style is where the leader and followers make the decision on the **basis of consensus**. This can provide high motivation and commitment from employees but decision making might become a very long process.

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The Ashridge studies found that:

(a) In an ideal world, subordinates preferred the 'consults' style of leadership.

(b) People led by a 'consults' manager had the most favourable attitude to their work.

(c) Most subordinates feel they are being led by a 'tells' or 'sells' manager.

(d) In practice, **consistency** was far more important to subordinates than any particular style. The least favourable attitudes were found amongst subordinates who were unable to perceive any consistent style of leadership in their superiors.

3.5 Limitations of style approaches

Perhaps the most important criticism of the style approach is that it does not consider all the variables that contribute to the practice of effective leadership.

(a) The manager's personality (or 'acting' ability) may simply not be **flexible** enough to utilise different styles effectively.

(b) The demands of the task, technology, organisation culture and other managers **constrain** the leader in the range of styles effectively open to him. (If their own boss practises an authoritarian style, and the team are incompetent and require close supervision, no amount of theorising on the desirability of participative management will make it possible...)

(c) **Consistency** is important to subordinates. If a manager adapts their style to changing situations, subordinates may simply perceive them to be fickle, or may suffer insecurity and stress.

Huczynski and Buchanan note that 'there is therefore no simple recipe which the individual manager can use to decide which style to adopt to be most effective'.

It is the consideration of this wide set of variables that has led to the development of the contingency approach to leadership.

3.6 Contingency approaches to leadership

The contingency theory of leadership is the view that effective leadership, and the most suitable style of leadership, depends on a number of variable (contingent factors).

There is no one right way to lead that will be appropriate in all situations. The ability of a manager to be a leader, and to influence his subordinate work group, depends on the particular situation and will vary from case to case.

Gillen *(Leadership Skills)* suggests that: 'using only one leadership style is a bit like a stopped clock: it will be right twice a day but, the rest of the time, it will be inaccurate to varying degrees. Leaders need to interact with their team in different ways in different situations.'

Leaders need to adapt their style to the needs of the team and situation. This is the basis of **contingency approaches** such as:

- **Fiedler**'s 'psychologically close' and 'psychologically distant' styles
- **John Adair**'s 'action-centred' leadership model – based upon 'situations' or 'functions'

3.7 Fiedler and contingency theory

Fiedler has been a leading advocate of contingency theory. He carried out extensive research on the nature of leadership and found that people become leaders partly because of their own attributes and partly because of the situation in which they find themselves. He studied the relationship between style of leadership and the effectiveness of the work group and identified two types of leader.

(a) **Psychologically distant managers** (PDMs). These maintain distance from their subordinates.

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(i) They formalise the roles and relationships between themselves and their superiors and subordinates.

(ii) They choose to be withdrawn and reserved in their interpersonal relationships within the organisation (despite having good inter-personal skills).

(iii) They prefer formal consultation methods rather than seeking the opinions of their staff informally.

PDMs judge subordinates on the basis of performance, and are primarily task-oriented: Fiedler found that leaders of the most effective work groups tend to be PDMs.

Fiedler also argued that the leadership style adopted is relatively stable, and a feature of a leader's personality that could therefore be predicted.

(b) **Psychologically close managers** (PCMs). These are closer to their subordinates.

(i) They do not seek to formalise roles and relationships with superiors and subordinates.

(ii) They are more concerned to maintain good human relationships at work than to ensure that tasks are carried out efficiently.

(iii) They prefer informal contacts to regular formal staff meetings.

Fiedler suggested that the effectiveness of a work group depended on the **situation**, made up of three key variables.

- The relationship **between the leader and the group** (trust, respect and so on)
- The extent to which the **task** is defined and structured
- The **power** of the leader in relation to the group (authority, and power to reward and punish)

A situation is **favourable** to the leader when:

- The leader is liked and trusted by the group
- The tasks of the group are clearly defined and unambiguous
- The position power of the leader (ie to reward and punish with organisation backing) is high

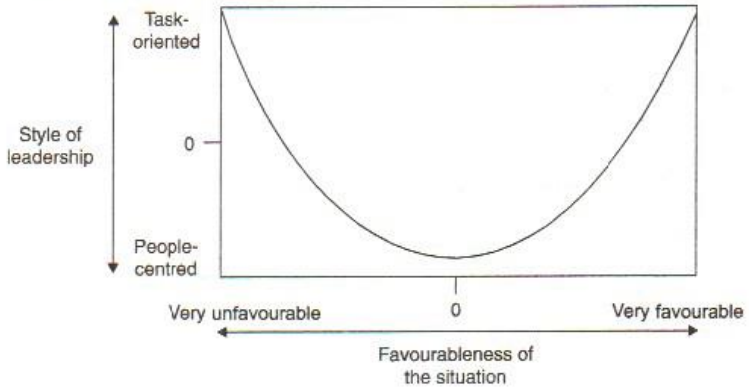
Fiedler suggested that:

(a) A structured (or psychologically distant) style works best when the situation is either very favourable, or very unfavourable to the leader

(b) A supportive (or psychologically close) style works best when the situation is moderately favourable to the leader

(c) 'Group performance will be contingent upon the appropriate **matching of leadership styles** and the **degree of favourableness** of the group situation for the leader' (Fiedler)

This is summed up in the diagram below.



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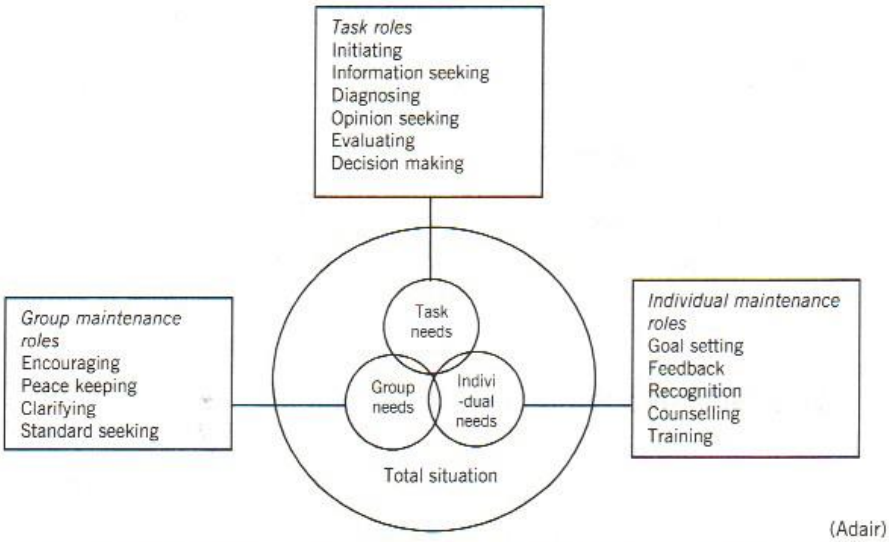
3.8 John Adair: action-centred leadership

John Adair's model (also called 'action-centred' or 'functional') is part of the contingency school of thought, because it sees the leadership process in a context made up of three interrelated variables: **task needs**, the **individual needs** of group members and the **needs of the group** as a whole. These needs must be examined in the light of the whole situation, which dictates the relative priority that must be given to each of the three sets of needs. Effective leadership is a process of identifying and acting on that priority, exercising a relevant cluster of roles to meet the various needs.

Adair argued that in any situation, the leadership style of a manager should depend on:

- Concern for the task
- Concern for the team or group as a whole
- Concern for individuals within the group

The concern that the leader should show for each of these issues will vary according to the nature of the job, the subordinates and the team as a whole.



(Adair)

Adair argued that the common perception of leadership as 'decision making' was inadequate to describe the range of action required by this complex situation. He developed a scheme of leadership training based on precept and practice in each of eight leadership 'activities' which are applied to task, team and individual: hence, the '**action-centred leadership**' model.

- Defining the task
- Planning
- Briefing
- Controlling
- Evaluating
- Motivating
- Organising
- Setting an example

An appraisal of contingency theory

Contingency theory usefully makes people aware of the factors affecting the choice of leadership style. However:

(a) Key variables such as task structure, power and relationships are difficult to measure in practice

(b) Contingency theories do not always take into account the need for the leader to have technical competence relevant to the task

Perhaps the major difficulty for any leader seeking to apply contingency theory, however, is actually to modify his or her behaviour as the situation changes.

Leadership styles

QUESTION

Compare and contrast the participatory leadership style and the authoritarian or autocratic leadership style. In what circumstances would you prefer either of them?

Leadership style theories look at different types of leadership style and whether any of these is best. While there are many different ways of classifying leadership styles, all style theories relate mainly to the extent to which the leader is focused primarily on task/performance (directive behaviour) or relationships/people (supportive behaviour). Key style models include:

- Transactional or transformational leadership.
- Lewin, Lippitt and White identified three styles of leadership: authoritarian, democratic and laissez-faire.
- Tannenbaum and Schmidt: a continuum of leadership styles with different proportions of authoritarian and democratic attitudes.
- The **Ashridge Model**: tells, sells, consults, joins.

Leaders need to adapt their style to the needs of the team and situation. This is the basis of **contingency approaches** such as:

- **Fiedler**'s 'psychological close' and 'psychologically distant' styles
- **John Adair**'s 'action-centred' leadership model – based upon 'situations' or 'functions'.

4 Leadership in modern organisations

The principles of leadership suggested by early writers and theorists remain valid today, but other ideas have been developed that apply more directly to the modern business environment. Some of these ideas are described here. They are the concept of emotional intelligence in leaders, ideas about team leadership and moral leadership, and the contingency approach to leadership theory.

4.1 Emotional leadership

Some studies have concluded that emotional intelligence (EI) is a better indicator of an individual's leadership qualities than expertise or measures of intelligence (IQ). Without EI, a person may be exceptionally well trained and might have a highly analytical mind, a long-term vision and an endless supply of terrific ideas, but they will still not make a great leader.

Good leaders demonstrate EI by exhibiting all five of the following component elements:

(a) **Self-awareness:** demonstrated by self-confidence, the ability to make realistic self-assessments and a self-deprecating sense of humour

(b) **Self-management:** demonstrated by trustworthiness and integrity and willingness to accept change

(c) **Self-motivation:** demonstrated by a strong drive to achieve, optimism and a high level of commitment to the organisation

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(d) **Empathy:** demonstrated by expertise in building and retaining talent in subordinates, a sensitivity to cross-cultural issues and providing a service to clients and customers

(e) **Social skills:** demonstrated by an ability to lead efforts to make changes, skills in persuading others and expertise in building and leading teams

4.2 Team leadership

Leadership is provided within a team. Team leadership is important in organisations that have a team culture, for example organisations in which there is extensive use of project work. The role of team leaders includes coaching, facilitating, handling disciplinary problems, reviewing team/individual performance, training and communication. These roles tend to be generic for all types of leader, not just team leaders. However, team leaders focus on two priorities, namely managing the team's relationships with other people outside the team, and facilitating the 'team process'. These two priorities are further divided into four specific roles.

(a) Team leaders liaise with people outside the team, such as senior management, other teams within the organisation, customers and suppliers.

(b) Team leaders are 'trouble-shooters' who resolve problems (of a non-technical nature) faced by their team.

(c) Team leaders are conflict managers. When conflicts arise, the team leader deals with the conflict by identifying the cause or source of conflict, who is involved, and what are the options for resolving the problem.

(d) Team leaders are coaches who clarify expectations and roles of team members, teach, offer support, act as a cheer leader and do anything else that would make team members improve their work performance.

4.3 Moral leadership

Leadership is not free from moral or ethical values. Leaders may act ethically or unethically.

(a) Unethical leaders are more likely to use charisma to enhance their power over their followers, and to direct their power towards self-serving ends.

(b) Unethical business leaders might abuse their power when they give themselves large salaries and bonuses, when at the same time they seek to cut costs by laying off long-time workers.

Ethical leaders use their charisma in a socially constructive way to provide benefits to others. The effectiveness of an individual as a leader should be judged by the means the leader uses to achieve his/her goals and the moral content of these goals. Are the changes that the leader seeks for the organisation morally acceptable?

For example:

- Is the leader effective if they build an organisation's success by selling products that damage the health of its users?
- Is a military leader successful by winning a war that should not have been fought in the first place?

Some research has suggested that successful leaders have a high level of emotional intelligence.

Other research has focused on the skills required for successful team leadership.

There is also an ethical aspect to leadership. Good leaders should be judged by the moral values in their goals and the methods they use to achieve those goals.

5 Delegation

Within a company, the owners give the board of directors the responsibility of leading the company and running the company in the best interests of the owners. The board of directors are given the power and the authority to fulfil this responsibility, and they should be held accountable to the owners for the way in which they have carried out their responsibilities and exercised their power and authority.

The board of directors delegates a large amount of their authority to the executive management team. In an organisation with a hierarchical structure and a chain of command, authority is delegated through each level in the management hierarchy.

The concepts of delegation, authority, power, responsibility and accountability are all closely connected.

5.1 Authority, delegation, accountability and responsibility

It is the role of the manager to **take responsibility** and **organise people** to get things done. This involves the use of **authority** and **power**. Power is the **ability** to do something whereas authority is the **right** to do something. Authority is delegated within the organisation's management structure. In a bureaucratic organisation, authority is **delegated** through the chain of command. Managers who are given delegated authority should then be **accountable** to their boss for the way in which they have exercised their authority, and the resulting performance they have achieved.

It is easy to confuse **authority**, **accountability** and **responsibility** since they are all to do with the **allocation of power within an organisation**.

Delegation

DELEGATION means handing authority down from a higher level of management to management at a lower level in the organisation. It is the process of entrusting authority and responsibility to others throughout the various levels of the organisation.

Delegation of authority occurs in an organisation when a superior gives to a subordinate the discretion to make decisions within a certain sphere of influence. This can only occur if the superior initially possesses the authority to delegate; a subordinate cannot be given organisational authority to make decisions unless it would otherwise be the superior's right to make those decisions.

Delegation of authority is the process by which a superior gives a subordinate the authority to carry out an aspect of the superior's job. Without delegation, a formal organisation could not exist. The degree of **centralisation or decentralisation** is a measure of the extent to which authority is delegated within an organisation.

Authority

AUTHORITY *is given to a person to make decisions, by virtue of the position they hold in the* organisation.

Managerial authority has three aspects.

- Making decisions within the scope of the authority that the manager has been given
- Giving tasks to subordinates
- Expecting and requiring satisfactory performance of these tasks by subordinates

Responsibility

RESPONSIBILITY is the liability of a person to discharge certain duties. It is the obligation to do something.

The concept of responsibility in every day life is similar. Individuals may be given responsibility for ensuring that something happens, or that something is protected and safeguarded. If anything goes wrong, the person responsible will be asked to explain why and will be blamed if they have not carried out their responsibilities with sufficient care and attention.

The same applies in an organisation. Managers are given responsibilities in their job in an organisation, and are expected to ensure that the job is done well.

(a) When authority is delegated by a superior to a subordinate manager, the subordinate manager becomes responsible for the authority and responsibility that has been given to them. In this sense, responsibility and authority are both delegated.

(b) However the superior who delegates responsibility to a subordinate must remain responsible and accountable to their own boss for everything that their subordinate does. In this sense, authority can be delegated but responsibility cannot be delegated. A superior cannot pass on the blame to a subordinate.

Authority and responsibility should be matched with each other.

(a) A manager should be fully responsible (and accountable) for the authority and responsibility delegated to them.

(b) A manager should not be given responsibility without also being given the authority to carry out their responsibilities.

(c) A manager should not be given authority without also being given responsibility.

Accountability

People with responsibility must be accountable for what they do. **ACCOUNTABILITY** means having to explain actions or performance to the person from whom authority has been delegated. In business organisations, managers are accountable **to** their superiors **for** their actions and performance.

Accountability is achieved by means of a requirement by a manager to report on performance to superiors, who can judge how well they have exercised the delegated authority that the manager has been given.

When a superior delegates authority to a subordinate, the subordinate should be accountable to the superior. However, the superior **remains fully accountable to their own superiors**. Although authority can be delegated, responsibility and accountability cannot be delegated.

5.2 Benefits of delegation

Effective delegation should lead to optimum use of human resources and improved organisational performance. The benefits of delegation are similar to the benefits of decentralisation:

(a) **Best use of managerial time**. Delegation of authority for less important matters allows senior managers to give more time to strategic issues and other issues of greater importance.

(b) **Limited time of senior managers**. In a large organisation, there would be too much work for senior managers unless they delegated authority and responsibility for many aspects of the business to more junior managers.

(c) **A means of training and development of staff**, and testing the suitability of subordinates for promotion.

(d) **Specialist knowledge and skills**. Authority can be delegated to individuals with specialist knowledge and skills, who are able to perform some functions more effectively and efficiently than their superiors. For example, a board of directors will delegate authority for many finance and accounting matters to managers in the accounts department, where managers have greater skills in accounting than most of the directors.

(e) **Geographical location.** When an organisation is spread over a large geographical area, delegation can improve decision-making at a local level. (This is an argument in favour of decentralisation.)

(f) **Sound economics.** Delegation benefits both the manager and subordinates and enables them both to play their roles in improving organisational effectiveness. The principle of delegation allows decisions to be made at the lowest level in the organisation that is compatible with efficiency and good performance.

(g) **Motivation of the workforce.** Delegating authority to subordinates may motivate the subordinates to increase their commitment to the goals of the organisation and perform better. Motivation is discussed in Chapter 5.

5.3 Obstacles to effective delegation

The willingness of a manager to delegate authority to a subordinate is affected by the manager's perception of the subordinate staff. It is also affected by the subordinate's perception of the manager's reasons for delegation. Failure to delegate is often attributable to the manager's fear.

(a) The manager may fear that the subordinate is not capable of doing a sufficiently good job.

(b) The manager may fear being blamed for the subordinate's mistakes.

(c) The manager may fear that the subordinate will do too good a job, and appear more capable than the manager.

5.4 Empowerment

Empowerment means making workers (and particularly work teams) responsible for achieving, and even setting, work targets, with the freedom to make decisions about how they are to be achieved.

Empowerment goes in hand in hand with:

(a) **Delayering** or a cut in the number of levels (and managers) in the chain of command, since responsibility previously held by middle managers is, in effect, being given to operational workers.

(b) **Flexibility**, since giving responsibility to the people closest to the products and customers encourages responsiveness – and cutting out layers of communication, decision-making and reporting speeds up the process.

(c) **New technology**, since there are more 'knowledge workers'. Such people need less supervision, being better able to identify and control the means to clearly understood ends. Better information systems also remove the mystique and power of managers as possessors of knowledge and information in the organisation.

The main reason for empowerment is the people lower down the organisation possess the knowledge of what is going wrong with a process but lack the authority to make changes. Those further up the structure have the authority to make changes, but lack the profound knowledge required to identify the right solutions. The only solution is to change the culture of the organisation so that everyone can become involved in the process of improvement and work together to make the changes.

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It is the role of the manager to **take responsibility** and **organise people** to get things done.

This involves the use of **authority** and **power** and implies a hierarchy in which power is delegated downwards while **accountability** is rendered upwards.

Authority is the decision-making discretion given to a manager, while responsibility is the obligation to perform duties.

Sufficient authority should be granted to permit the efficient discharge of the appointed responsibility.

Delegation is essential wherever there is a hierarchy of management.

Power is the **ability** to do something whereas authority is the **right** to do something; expert power is possessed by those acknowledged as experts.

Chapter Roundup

- The terms 'leadership' and 'management' are often used in the same way, with the same meaning. However a distinction can be made between management and leadership.
- Bennis suggested that a leader innovates and develops, whereas a manager administers and controls.
- Management focuses on the 'non-people' aspects of systems. The focus of leadership is on providing leadership to people.
- Management is mainly short-term in focus, whereas leadership is long-term in outlook.
- There are several **schools of leadership theory**: trait ('qualities') theory, behavioural theory, leadership style theories and contingency.
- Trait theories of leadership are based on the belief that certain personal qualities common to 'great men' or successful leaders. In other words **'leaders are born, not made'**.
- Blake and Moulton used a managerial grid to demonstrate different types of managerial behaviour, with differing amounts of concern for the job and concerns for the people doing the job.
- **Leadership style** theories look at different types of leadership style and whether any of these is best. While there are many different ways of classifying leadership styles, all style theories relate mainly to the extent to which the leader is focused primarily on task/performance (directive behaviour) or relationships/people (supportive behaviour). Key style models include:
  - **Transactional** or **transformational** leadership
  - Lewin, Lippitt and White identified three styles of leadership: authoritarian, democratic and laissez-faire
  - Tannenbaum and Schmidt: a continuum of leadership styles with different proportions of authoritarian and democratic attitudes
  - The **Ashridge Model**: tells, sells, consults, joins
- Leaders need to adapt their style to the needs of the team and situation. This is the basis of **contingency approaches** such as:
  - **Fiedler**'s 'psychologically close' and 'psychologically distant' styles
  - **John Adair**'s 'action-centred' leadership model – based upon 'situations' or 'functions'
- Some research has suggested that successful leaders have a high level of emotional intelligence.
- Other research has focused on the skills required for successful team leadership.
- There is also an ethical aspect to leadership. Good leaders should be judged by the moral values in their goals and the methods they use to achieve those goals.
- It is the role of the manager to **take responsibility** and **organise people** to get things done.
- This involves the use of **authority** and **power** and implies a hierarchy in which power is delegated downwards while **accountability** is rendered upwards.
- Authority is the decision making discretion given to a manager, while responsibility is the obligation to perform duties.
- Sufficient authority should be granted to permit the efficient discharge of the appointed responsibility.
- Delegation is essential wherever there is a hierarchy of management.
- Power is the **ability** to do something whereas authority is the **right** to do something; expert power is possessed by those acknowledged as experts.

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Quick Quiz

1 Here are some statements about a manager's approach to meetings. Which position on Blake and Moulton's grid do you think each might represent?

(a) I attend because it is expected. I either go along with the majority position or avoid expressing my views.

(b) I try to come up with good ideas and push for a decision as soon as I can get a majority behind me. I don't mind stepping on people if it helps a sound decision.

(c) I like to be able to support what my boss wants and to recognise the merits of individual effort. When conflict rises, I do a good job of restoring harmony.

2 Put the following leadership styles in order, with the least democratic style first and the most democratic style last.

(a) Tells and talks
(b) Consults
(c) Tells and sells
(d) Delegates
(e) Involves

3 A manager can delegate authority but cannot delegate his responsibility for this authority. **True or false?**

Answers to Quick Quiz

1 (a) 1.1: low task, low people, (b) 9.1: high task, low people, (c) 1.9: high people, low task.

2 (c) tells and sells (least democratic of the styles in the question), (a) tells and talks, (b) consults, (e) involves, (d) delegates (most democratic of the styles in the question).

3 True. The senior manager remains responsible for the authority that he has delegated and is still accountable to his own superior manager.

Answer to Question

Leadership styles

A participatory leadership style is a democratic style. A manager involves subordinates (or team members) in the decision-making process. A leader with an authoritarian style takes all the decisions himself and does not allow subordinates to take decisions themselves or even take part in the decision-making process.

Tannenbaum and Schmidt identified a continuum of leadership styles, each with a different combination of authoritarian and democratic elements. They suggested that when subordinates are new to their job or inexperienced, an authoritarian style may be necessary, but as team members become more experienced and knowledgeable, a leader should adopt a more democratic style and trust the team members to take some decisions themselves and share in the decision-making process for the leader's own decisions.

Contingency theory suggests that the most suitable leadership style in any situation depends on the circumstances (contingent factors). Fiedler, for example, made a distinction between psychologically distant managers, who may adopt a more authoritarian style, and psychologically close managers, who may adopt a more participative/democratic style.

Fiedler suggested that a situation is favourable to the leader when the leader is liked and trusted by the group, the tasks of the group are clearly defined and unambiguous and the leader has the authority and power to reward and punish subordinates. Fiedler went on to suggest that a psychologically-distant style is most effective when the situation is either favourable or unfavourable to the leader. A psychologically close style is more effective when the situation is neither very favourable nor very adverse.

You might find that an authoritarian style would be more appropriate in a situation where you are responsible for an area of work that involves routine activities and where your subordinates are inexperienced or unskilled. A participative style would be preferable when the nature of the work is complex, and the subordinates have skills and experience that they can use to contribute constructively to decision-making.

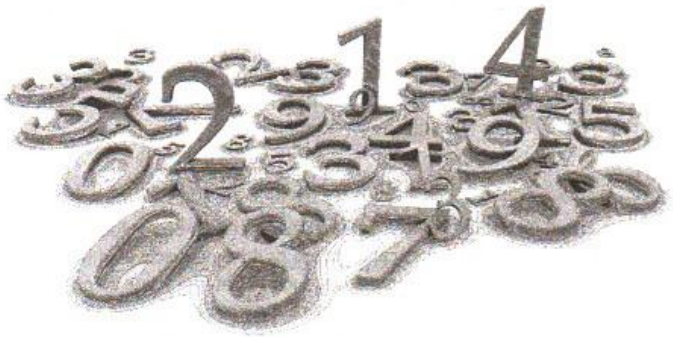
THEORIES OF MOTIVATION

Human behaviour is a complex phenomenon. Managers need to understand something of what makes their team members 'tick' – particularly when it comes to the key question: how do you get them to perform well, or better?

That is what **motivation** is about.

Having explored motivation, and its impact on performance, the chapter goes on to look at a range of key **motivational theories**. These are theories about what motivates individuals at work: these theories can offer some guidance to management about the organisation of work, rewards, leadership style and job design.

The chapter then goes on to consider two specific aspects of motivation. One of these is the effect on motivation of a desire for personal achievement and career development. The other is the ways in which job design might motivate (or de-motivate) individuals in their work.



chapter 5

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LEARNING OBJECTIVES

- Describe the nature and process of motivation (6A)
- Discuss various theories of motivation (6B)
- Explain the need for personal achievement and career development (6C)
- Explain the role of job design in motivating employees (6D)

1 The nature of motivation

Human behaviour is a complex phenomenon. Managers need to understand what makes their team members 'tick' – particularly when it comes to the key question: how do you get workers to perform well, or better? That is what **motivation** is about as we shall see in this section.

MOTIVATION is 'a decision-making process through which the individual chooses desired outcomes and sets in motion the behavior appropriate to acquiring them' (Huczynski and Buchanan).

In practice, the words **motives** and **motivation** are commonly used in different contexts to mean the following.

(a) **Goals or outcomes** that have become desirable for a particular individual. We say that money, power or friendship are motives for doing something.

(b) The **mental process of choosing desired outcomes**, deciding how to go about them (whether the likelihood of success warrants the amount of effort that will be necessary) and setting in motion the required behaviours.

(c) The **social process** by which other people motivate us to behave in the ways they wish. Motivation, in this sense, usually applies to the attempts of organisations to get workers to put in more effort.

1.1 Needs and goals

Individual behaviour is partly influenced by human biology, which requires certain basics for life. When the body is deprived of these essentials, biological forces called **needs** or **drives** are activated (e.g. hunger), and dictate the behaviour required to end the deprivation, such as eat, drink and so on. However, we retain freedom of choice about how we satisfy our drives, because they do not dictate specific or highly predictable behaviour. (For example: if you are hungry, how many specific ways of satisfying your hunger can you think of?)

Each individual also has a set of **goals**. The relative importance of those goals to the individual may vary with time, circumstances and other factors. The following are some factors that influence individuals in setting goals:

Influence	Comment
Childhood environment and education	Aspiration levels, family and career models and so on are formed at early stages of development.
Experience	This teaches us what to expect from life: we will either strive to repeat positive experiences, or to avoid or make up for negative ones.

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Influence	Comment
Age and position	There is usually a gradual process of goal shift with age. Relationships and exploration may preoccupy young employees. Career and family goals tend to compete in the 20–40 age group: career launch and take-off may have to yield to the priorities associated with forming permanent relationships and having children.
Culture	Collectivist cultures show a greater concern for relationships at work, while individualist cultures emphasise power and autonomy.
Self-concept	All the above factors are bound up with the individual's own self-image. The individual's assessments of his own abilities and place in society will affect the relative strength and nature of his needs and goals.

The **basic assumptions of motivation** are as follows.

(a) People behave in such a way as to **satisfy their needs** and fulfil their goals.

(b) An organisation is in a position to **offer some of the satisfactions** people might seek: relationships and belonging, challenge and achievement, progress on the way to self-actualisation, security and structure, just to mention a few.

(c) The organisation can therefore **influence** people to behave in ways it desires (to secure work performance) by offering them the means to satisfy their needs and fulfil their goals in return for that behaviour. (This process of influence is called motivation.)

(d) If people's needs are being met, and goals being fulfilled at work they are more likely to have a **positive attitude** to their work and to the organisation, and may experience **job satisfaction**.

1.2 How useful is 'motivation' as a concept?

The impact of motivation and job satisfaction on **performance** is difficult to measure accurately.

(a) Motivation is about getting extra levels of commitment and performance from employees, over and above mere compliance with rules and procedures. If individuals can be motivated, by one means or another, they might work more efficiently and they will produce a better quality of work.

(b) The impact of job satisfaction as a factor in improved work performance has proved difficult to verify and measure. It cannot be proven.

(c) The key is to work 'smarter' – not necessarily 'harder'.

MORALE is a term drawn primarily from a military context, to denote the state of mind or spirit of a group (*esprit de corps*), particularly regarding **discipline** and **confidence**. It can be related to satisfaction, since low morale implies a state of dissatisfaction.

The signs by which **low morale or dissatisfaction** are gauged are also ambiguous.

(a) **Low productivity** is not invariably a sign of low morale. There may be more concrete problems affecting workers, for example poor technology.

(b) **High labour turnover** is not a reliable indicator of low morale: the age structure of the workforce and other factors in natural wastage will need to be taken into account. Low turnover, likewise, is no evidence of high morale: for example, people may be staying because of lack of other opportunities in the local job market.

However, there is some evidence that satisfaction correlates with mental health, so symptoms of **stress** or psychological dysfunction may be a signal that all is not well. Stress can be caused by a range of factors away from the work environment.

Attitude surveys may also be used to indicate workers' perception of their job satisfaction. The survey can be conducted through interview or questionnaire.

Motivation at work is a mental process whereby an individual decides how much effort to put into their work.

Motivation is driven by the needs of individuals, and the satisfaction of those needs through work.

Positive motivation makes an individual put more effort into work, and creates job satisfaction. It may also improve performance.

Negative motivation is evidenced by low morale, dissatisfaction and high labour turnover.

Managers may therefore look for ways of sustaining or improving the positive motivation of their employees, and avoiding negative motivation.

2 Theories of motivation

There are many theories about motivation at work. This section looks at the theories of Maslow, Herzberg, Vroom, McGregor, McClelland, Likert, Adams and Locke and Latham.

Many theories try to explain motivation and why and how people can be motivated. One classification distinguishes between content and process theories.

(a) **Content theories** ask the question: '**What** are the things that motivate people?'

They assume that human beings have a set of needs or desired outcomes. Maslow's hierarchy of needs and Herzberg's two-factor theory, both discussed shortly, are two of the most important approaches of this type.

(b) **Process theories** ask the question: '**How** can people be motivated?'

They explore the process through which outcomes become desirable and are pursued by individuals. This approach assumes that people are able to select their goals and choose the paths towards them, by a conscious or unconscious process of calculation. Expectancy theory discussed later, is an example of this type of theory.

2.1 Maslow's hierarchy of needs

Abraham Maslow was a US psychologist. In the 1950s he developed a theory of the motivation of individuals at work. He argued that individuals have in-built needs, and his theory is concerned with the motivating power of each of these needs and how work contributes towards the satisfaction of these needs.

Maslow suggested that five needs of individuals can be arranged in a hierarchy. The need at a lower level the dominant motivating factor for the individual until it has been satisfied. When the need at one level has been satisfied, the need at the next level becomes dominant and the most important for the individual. A need at a higher level is not important for the individual until the needs at lower levels are satisfied.

- When a need has been satisfied, it no longer motivates the individual.
- An individual is motivated by the need at the next level in the hierarchy that has not yet been satisfied.
- The highest level of need is a need for self-actualisation. This can never be fully satisfied.

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The hierarchy of needs (the five levels of need) can be drawn as a pyramid.

Maslow also identified two other human needs, which are needs of a higher order. Individuals want these needs to be satisfied, regardless of which needs in his hierarchy have been satisfied. These two higher-level needs are:

(a) Freedom of enquiry and expression needs (for social conditions permitting free speech, and encouraging justice, fairness and honesty)

(b) Knowledge and understanding needs (to gain knowledge of the environment, to explore, learn)

The value of Maslow's ideas

If Maslow's ideas are valid, they suggest how management should approach the problem of trying to motivate their employees. Lower-level needs must be satisfied before management try to motivate employees with measures that are designed to satisfy higher-level needs.

(a) The salary is important, because it satisfies basic needs. Employees must be paid enough to satisfy their basic physiological needs (whatever these are).

(b) Employees may also need to be paid enough to satisfy their need for esteem before they are motivated by the need for self-actualisation.

(c) There is no point in trying to motivate employees through better job design, or creating jobs that improve social interaction, unless employees feel secure in their job.

Weaknesses in the hierarchy of needs theory

There are several problems with Maslow's theory.

(a) It is structured on the basis that needs are the same for all people and that they can be arranged in a hierarchy.

(b) Many individuals may be motivated by the satisfaction of several different needs at the same time.

(c) There is an underlying assumption that the organisation will benefit if all individuals are able to satisfy their needs for esteem and so are motivated by the need for self-actualisation. Maslow did not demonstrate proof of any link between self-actualisation of indivicuals and improved organisational performance.

(d) Maslow did not explain clearly what self-actualisation means.

Maslow's model is an example of a 'content theory' of motivation. It does not explain the strength of motivation, or the effect on motivation of people's perceptions or performance.

2.2 Herzberg's two-factor theory

Frederick Herzberg developed a two-factor theory of motivation, which he set out in his book *The Motivation to Work* (1959). He identified two groups or categories of factors at work: those causing dissatisfaction with work and those causing satisfaction. He called these **hygiene factors** (= the factors causing dissatisfaction) and **motivator factors** (= the factors causing satisfaction).

(a) The need to avoid unpleasantness is satisfied through **hygiene factors**. Hygiene factors are to do with the environment and conditions of work, including:

(i) Company policy and administration
(ii) Interpersonal relations
(iii) Salary
(iv) Working conditions
(v) The quality of supervision
(vi) Job security

If inadequate, hygiene factors cause **dissatisfaction** with work (which is why they are also called 'dissatisfiers'). They work like sanitation, which minimises threats to health rather than actively promoting 'good health'.

(b) The need for personal growth is satisfied by **motivator factors**.

These actively create job satisfaction (they are also called 'satisfiers') and are effective in motivating an individual to superior performance and effort. These factors are connected to the work itself, including:

(i) Status (although this may be a hygiene factor too)
(ii) Challenging work
(iii) Advancement (or opportunities for it)
(iv) A sense of achievement
(v) Recognition by colleagues and management
(vi) Growth in the job
(vii) Responsibility

A lack of motivator factors will encourage employees to concentrate on the hygiene factors. These, although they can be regarded as motivators in the very short term, will eventually dissatisfy.

Herzberg suggested that where there is evidence of poor motivation, such as low productivity, poor quality and strikes, management should not pay too much attention to hygiene factors such as pay and conditions. Despite the fact that these are the traditional target for the aspirations of organised labour, their potential for bringing improvements to work attitudes is limited. Instead, Herzberg suggested three types of **job design** which would offer job satisfaction through enhanced motivator factors.

(i) Job enlargement
(ii) Job rotation
(iii) Job enrichment

Job design is discussed later in this chapter.

Evaluating Herzberg's theory

Herzberg's original study was concerned with 203 Pittsburgh engineers and accountants. His theory has therefore been criticised as being based on:

(a) An inadequately small sample size
(b) A limited cultural context (Western professionals)

The impact of job satisfaction (from motivator factors) on work performance has proved difficult to verify and measure.

2.3 Participation as a motivator

As Herzberg's work illustrates responsibility and recognition are important motivating factors. Closely connected to this is the role that participation can play in raising motivation among employees. However, it is not enough to simply involve the staff and expect motivation to increase. In order to achieve higher levels of motivation as a result of participation, the following should be taken into account.

- Employees should only be involved in **relevant** decisions where they have experience and knowledge. If the decisions relate to areas outside of the scope of the employees work it is likely that motivation will decrease, not increase, as a result of participation. In cases where employees are encouraged to participate in making decisions not relevant to their work they may view the exercise as a waste of time.
- Participation should only be used for decisions of a certain degree of **importance**. If the employees perceive the matter to be trivial it is unlikely that the motivation of those employees will be raised.
- **Feedback** on the outcome of the decision must be provided to the employees as soon as possible. If they are not made aware of the outcome of their participation any raise in morale will quickly be lost.
- The participation must be **genuine**. It cannot be a process where the staff are seen to be consulted but no further action is taken in light of their involvement. To prevent any misunderstanding the nature of the involvement should be stated up front. This should clarify whether staff will provide information to management who will make the final decision, or whether the staff will be directly involved in the decision making process.
- Employees should only be involved in decisions for which they have the **ability**, **equipment** and **willingness** to be involved.

2.3.1 Quality circles

The use of quality circles are a good example of participation in the workplace.

*A **quality circle** is a method that can be used by management to review existing processes and identify* improvements that can be made.

Quality circles are cross-functional discussion groups which generally consist of operational staff who have day-to-day experiences of the processes involved. The aim of the group is to identify any existing problems with quality and to identify possible solutions, which are then put forward to management.

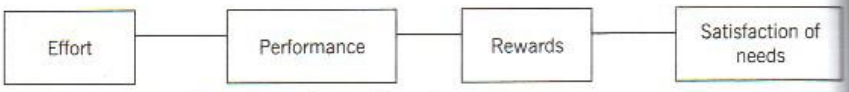
By involving the operational staff in the decision making process it is probable that, not only will a more effective and workable solution be identified, but those staff will also be more likely to feel valued, and therefore have an improved perception of both the organisation and the management team. This can directly impact on staff turnover as operational staff are less likely to leave an organisation when they are motivated and feel that they are appreciated.

2.4 Vroom's expectancy theory

Victor Vroom developed an expectancy theory of motivation in the 1960s. This is a theory for predicting the **strength** of the motivation of an individual to put effort into his work.

Vroom argued that individuals have personal goals that they want to satisfy, and that these can be satisfied through work. The motivation of an individual is affected by the view of the individual about whether putting in more effort at work will result in a satisfaction of his personal needs.

The individual may believe that the amount of effort that he puts into his work will affect his performance. He may also expect that if his performance improves, he will be rewarded. The rewards that he would expect may satisfy some of his personal needs. The strength of motivation depends on the strength of the connection between effort and satisfaction of needs.



Rewards are not simply pay. Rewards can be a mixture of:

(a) **extrinsic rewards** – pay, bonuses
(b) **intrinsic rewards** – promotion, sense of achievement, recognition

Vroom also argued that the strength of an individual's motivation is determined by:

(a) **Valence**. This is the strength of the individual's need for rewards.

(b) **Expectancy**. This is the strength of the individual's belief that by putting in more effort, he will improve his performance.

He stated a formula by which human motivation could be assessed and measured. He suggested that the strength of an individual's motivation is the product of two factors.

(a) The strength of his **preference** for a certain outcome. Vroom called this **valence**: it can be represented as a positive or negative number, or zero – since outcomes may be desired, avoided or regarded with indifference.

(b) Their **expectation** that the outcome will in fact result from a certain behaviour. Vroom called this 'subjective probability' or **expectancy**. As a probability, it may be represented by any number between 0 (no chance) and 1 (certainty).

In its simplest form, the expectancy equation may be stated as:

$$\mathbf{F = V \times E}$$

where: F = the force or strength of the individual's motivation to behave in a particular way

V = valence: the strength of the individual preference for a given outcome or reward and

E = expectancy: the individual's perception that the behaviour will result in the outcome/reward

In this equation, the lower the values of valence or expectancy, the less the motivation. An employee may have a high expectation that increased productivity will result in promotion (because of managerial promises, say), but if he is indifferent or negative towards the idea of promotion (because he dislikes responsibility), he will not be motivated to increase his productivity. Likewise, if promotion is very important to him – but he does not believe higher productivity will get him promoted (because he has been passed over before, perhaps), his motivation will be low.

Implications of expectancy theory

Expectancy theory has some implications for management.

- If motivation depends partly on **valence**, which is the strength of an employee's desire for particular rewards, managers should try to find out what their employees want.
- Motivation also depends on **expectancy**. If individuals do not believe that they are able to achieve better performance by trying harder, their motivation will be low. They may lack self-confidence, or lack sufficient skills. Management may be able to improve the expectancy of their employees through training and development, or giving them the resources they need to do the job, or by providing supervision and guidance.

2.5 McGregor: Theory X and Theory Y

Douglas McGregor *(The Human Side of Enterprise, 1960)* suggested that managers (in the US) tended to behave as though they subscribed to one of two sets of assumptions about people at work: Theory X and Theory Y.

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(a) **Theory X** suggests that most people dislike work and responsibility and will avoid both if possible. Because of this, most people must be coerced, controlled, directed and/or threatened with punishment to get them to make an adequate effort. Managers who operate according to these assumptions will tend to supervise closely, apply detailed rules and controls, and use 'carrot and stick' motivators. Their leadership style is authoritarian.

(b) **Theory Y** suggests that physical and mental effort in work is as natural as play or rest. The ordinary person does not inherently dislike work: however, depending on the conditions it may be a source of satisfaction or dissatisfaction. The potential of the average person is rarely fully used at work. People can be motivated to seek challenge and responsibility in the job, if their goals can be integrated with those of the organisation. A manager with this sort of attitude to his staff is likely to be a consultative, facilitating leader, using positive feedback, challenge and responsibility as motivators.

Both are intended to be extreme sets of assumptions – not actual types of people. However, they also tend to be self-fulfilling prophecies. Employees treated as if 'Theory X' were true will begin to behave accordingly. Employees treated as if 'Theory Y' were true – being challenged to take on more responsibility – will rise to the challenge and behave accordingly.

Theory X and Theory Y can be used to heighten managers' awareness of the assumptions underlying their motivational style.

2.6 Theory of needs (McClelland)

David McClelland (1917 – 1998) developed a needs-based motivational model. Everyone has three needs:

(a) A need for achievement ('n-ach')
(b) A need for authority and power ('n-pow')
(c) A need for affiliation ('n-affil')

One of the three needs is often the dominant force that motivates an individual at work.

He identified the characteristics of individuals who are motivated mainly by the needs for achievement, power and affiliation, as follows:

(a) **N-ach person**. Such a person is driven by a need for achievement and seeks advancement in his career. He wants to be given targets for performance, and feedback about whether he has been successful in achieving them. He gets a sense of accomplishment from achieving his targets.

(b) **N-pow person**. Such a person is driven by a need for authority and power. He wants to be influential and wants his ideas to be accepted, rather than the ideas of other people. He wants to lead, and wants the status and prestige that go with this.

(c) **N-affil person**. Such a person is driven by the need for affiliation with other people. He needs friendly relationships and is motivated by interaction with other people. He makes a good 'team player'.

McClelland argued that n-ach people make the best leaders. However, they may demand too much from their employees, because they assume that everyone else is motivated by the same need for achievement that they have.

N-affil individuals are usually poor leaders, because they are reluctant to take unpopular but necessary decisions.

N-pow individuals are also poor leaders. Although they have a strong work ethic and a commitment to the organisation, they often lack 'people skills'.

2.7 Organisational management styles (Likert)

Rensis Likert argued that the motivation of individuals is affected by the leadership style of their boss. He identified four distinct management styles each of which has a different impact in motivation.

(a) **Exploitive-authoritative style**

(i) Senior management have high levels of authority
(ii) Decisions are imposed on subordinates
(iii) Threats are made in an attempt to motivate employees
(iv) Very little communication and no teamwork

(b) **Benevolent-authoritative style**

(i) Leaders have authority

(ii) Motivation comes through rewards, however managerial personnel will feel responsibility but lower levels do not

(iii) Little communication and little teamwork

(c) **Consultative style**

(i) Superiors have substantial but not complete trust in employees
(ii) Motivation comes through rewards and some involvement
(iii) Some communication and some teamwork

(d) **Participative style**

(i) Superiors have full trust in their subordinates

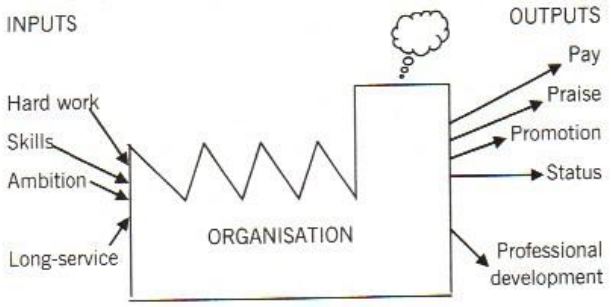
(ii) Motivation is provided by economic rewards based on specific goals that have been set together

(iii) Much communication and substantial levels of teamwork

2.8 Equity theory (Adams)

Adams (1963) developed an 'equity theory' of motivation. Equity in his theory means 'fairness'.

He argued that everyone wants and expects a fair balance between what we put into our work (inputs) and what we get out (outputs). We get our ideas about what is a fair balance by comparing our own situation with others – for example, by comparing our pay with the pay of others doing similar work.



Individuals expect a **fair balance** of inputs and outputs. This should be in line with their own expectations and in comparison with others.

Employees that perceive the balance to be fair are more likely to be motivated, happy and will maintain their input levels. This suggests reward systems should be carefully designed to be as fair as possible.

If people believe that someone else is getting more for the same amount of effort, they feel a sense of **inequity**. This can make them feel angry and they will want to do something to reduce their sense of unfairness. They may do this by:

(a) Reducing the inputs they put into their work – for example, by putting in less effort and commitment (reducing their motivation)

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(b) Changing the amount of pay or the nature of the reward they want

(c) Changing their views, for example by convincing themselves that the inputs are less or the outputs are more than they really are

(d) Leaving their job and moving to a job where there is more equity

2.9 Goal setting theory (Locke and Latham)

The basic premise of the goal setting theory is that people's goals or intentions have an important influence on their behaviour. People strive to achieve goals in order to satisfy their emotions and desires. Goals guide their responses and actions, and direct work behaviour and performance. Individuals should therefore be given goals for achievement, and having been given goals, they should be provided with feedback (information) to tell them how well (or badly) they have done.

Setting goals is a powerful way of motivating people. Locke and Latham suggested that goal setting should have the following characteristics:

(a) **Clarity of goals**. Employees are motivated by clear goals and appropriate feedback. Working towards the goal provides motivation to achieve it and, in turn, improves performance.

(b) **Complex goals**. **Specific** and **difficult** goals lead to better performance than simple or vague goals.

(c) **Challenging goals**. The more **challenging** the goal (as long as it is realistic) the higher the performance.

(d) **Feedback**. This is information about actual performance. Feedback helps individuals to improve performance and achieve their goals (presuming the individual is committed to the goals).

(e) **Involvement**. Involving the employee in the goal setting process improves information exchange, rather than securing commitment to the goal. Employees are most likely to 'buy into' a goal if they had a part in creating that goal.

(f) In order to motivate, goals should adhere to five principles:

1. Clarity
2. Challenge
3. Commitment
4. Feedback
5. Task complexity

Implications of goal setting

(a) Specific performance goals should systematically be identified and set in order to direct behaviour and maintain motivation.

(b) Individuals should be given complete, accurate and timely feedback of results and their performance.

(c) Goals may be set by the superior, or by the individual himself. The most effect way of setting goals is probably for the individual to agree them with his boss.

Management by Objectives (MBO)

Goal setting is associated with **Management by Objectives (MBO)**, which is an application of goal setting and performance. MBO is a system or style of management, which attempts to link organisational goals to individual performance and development through the participation of all levels of management. The underlying basis of the MBO is:

(a) The setting of objectives and targets
(b) Participation of individual managers in agreeing unit objectives and criteria of performance, and
(c) The continual review and appraisal of results

2.10 Reinforcement theory (Skinner)

The reinforcement theory states that behaviour is driven by its consequences:

Positive reinforcement. Enccurages the employee to repeat the behaviour by providing a positive consequence.

Negative reinforcement. Encourages the employee to repeat the behaviour by removing a negative consequence.

Extinction. Discourages the employee from repeating the behaviour by removing a reinforcing consequence.

Punishment. Discourages repeat behaviour by delivering a negative consequence.

There are many theories about motivation at work. These include the theories of Maslow, Herzberg, Vroom, McGregor, McClelland, Likert, Adams and Locke and Latham.

Each theory suggests what management should do to improve the motivation of employees.

Some theories, such as the expectancy theory of Vroom, attempt to explain the strength of motivation.

Several theories also explain what demotivates individuals, and suggest what management should do to prevent demotivation as well as encourage motivation.

One school of thought suggests that participation in decision-making can act as a motivator among employees. Quality circles are a good example of greater employee participation in process improvement.

EXAM ALERT

Ensure that you understand the key differences between the theories of motivation. Questions on the theories of motivation could easily appear in both Sections A and B of the exam.

5.1 Motivation theories

QUESTION

Why is it useful for managers to know about motivation theories?

3 Personal achievement and career development

Individuals can be motivated by a sense of personal achievement in the work that they are doing. They may also be motivated by a belief that they will achieve even more in the future, through personal development and career development.

This is consistent with the view of Maslow that individuals have a need for self-actualisation, that work can provide. However, an individual is unlikely to remain satisfied with personal achievements unless these are continually developing and advancing. This is why personal achievement and career development should be closely associated with each other.

3.1 Personal achievement and recognition

At the same time, individuals have a need for esteem and **recognition**. Personal achievements by individuals should be recognised by their superiors. Both pay and promotion can provide recognition of the achievements of an individual.

In order to retain high-quality individuals, an organisation should be able to offer them career development. If they cannot do this, the best individuals will eventually leave and go to another organisation where the opportunities for development are much better.

To continue motivating its managers, an organisation should therefore have systems in place for:

- Recognising personal achievements of individuals
- Rewarding successful achievements
- Providing opportunities for further personal achievements, through personal development and career progression

Training and development programmes within an organisation are described in more detail in Chapter 7. A brief explanation of how individuals can be developed through their career is set out below.

3.2 Career development

An organisation may offer career development as a way of motivating people at work and improving their performance. Career development has been found to be one of the practices that help retain staff. However, a career development programme should be combined with training and personal development for the individual, so that the individual gains the experience and skills he needs to develop his career.

A career development programme should have the following characteristics.

(a) It must be clear and transparent. It must be clear to individuals:

  (i) How they might expect to develop their career with the organisation
  (ii) What path the progress of their career will take
  (iii) How far they might expect their career to develop and over what period of time

(b) Not everyone can reach the top of the management tree. The career development programme should therefore be realistic and believable.

(c) It should be acceptable to employees. They should see opportunities that they want to take, so that they can be motivated by the prospect of career development.

(d) There should be feedback to employees, providing evidence of how the career development programme is working.

(e) There must be support for employees in planning their personal development and career development.

3.3 Methods of personal development

Development involves improving the skills and abilities of an individual, through a combination of work experience and training. Unlike technical training, development is concerned with improving the ability of the individual how to do a particular task. It is about giving the individual more experience and responsibilities, so that he can improve and achieve more.

There are several methods of developing managers.

(a) **Delegation**. Individuals can be motivated and also get the ability to develop through delegation of authority, or participation in decision-making by a team. Individuals need to learn how to make decisions, and the potential consequences of their decisions, through experience.

(b) **Job rotation.** Job rotation means moving an individual from one job to another, so that the individual learns about the work done in each job. The moves from one job to another are fairly frequent: the individual should remain in one job only as long as it takes to become familiar with it. For example, a young accountant in a large company may be given opportunities to develop by moving them between jobs in the financial accounting, management accounting, investment appraisal and treasury sections of the finance and accounts department. The breadth of experience that the individual gains will be valuable when he or she is promoted to a more senior position.

(c) **Secondment.** Secondment means sending an individual to work somewhere else for a period of time, for example to work in a different department or to be a member of a project team. For example, an accountant might be seconded from the accounts department to work with the sales team for a period of time, in order to gain experience of the sales function. Similarly, an accountant might be seconded to a project team that has been set up to design and implement a new computer system. Individuals are able to develop their skills and experience because they benefit from working with people from different parts of the organisation.

(d) **Deputising for a manager or supervisor.** An individual may be given the opportunity to deputise a boss when the boss is absent from work for a lengthy period, for example on holiday or absent due to illness.

(e) **Performance appraisal.** Performance appraisal involves giving the individual information ('feedback') about how well they have been doing their job, and whether they have been successful in achieving the performance targets that may have been set for them. Through performance appraisal, the individual is able to assess how far they have developed since the previous appraisal, what they have done well and in which areas they should be trying to improve. The individual can also agree further targets for the future, and discuss measures that might be taken to help with their development in the future.

(f) **Mentoring.** The skills and effectiveness of individuals in their work can be improved by mentoring. Mentoring means giving guidance and advice. An individual may be given a mentor, who is an experienced and respected person within the organisation. Mentoring may be used to prepare a 'high-flying' junior manager for a leadership role in the future. The mentor should give guidance and advice at appropriate times, based on their experience, to help the individual to improve and develop their management skills.

(g) **Training.** Training, particularly training in management skills, can also help an individual to improve and develop.

3.4 Personal development plan

An employer may have a formal system for personal development for some of its employees. Within such a system, a personal development plan may be prepared for each individual. This plan should be reviewed and updated regularly.

A personal development plan is a formal action plan for the individual, which links the development needs of the individual to the needs of the organisation. It sets out a number of development targets and opportunities for the individual, including formal training requirements.

The individual should have the main responsibility for preparing and using the development plan, which should be kept and maintained throughout their career with the organisation. They should discuss the plan with their boss regularly, and agree new targets and initiatives for the future.

In this way, the personal development plan can be linked to the career development of the individual.

Purpose of a personal development plan

A personal development plan enables an individual to:

- Recognise the experience and knowledge that they have acquired, and monitor their progress: the plan should record evidence of achievements, training courses attended and career development
- Take responsibility for their own learning and development

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- Define their needs for further training and development, in consultation with their boss
- Understand their personal weaknesses, and think about how to improve
- Provide evidence of their strengths, so that they can discuss their achievements with their boss

The personal development plan can be used as part of the performance appraisal process, which is discussed in Chapter 7.

5.2 Career development programme

QUESTION

One way of motivating employees is by putting in place a well structured career development programme. As a manager, what do you think would constitute the critical success factors to enable the career development programme succeed?

Individuals are motivated through a sense of personal achievement. A motivated individual seeks to achieve even more in the future.

An employer can help an individual with personal achievement by providing career progression and development (as well as other ways of recognising achievement, such as higher pay). An organisation may have a career development programme.

Individuals are able to achieve more if they have a programme for development.

Personal development plans can be used for planning and reviewing the development and achievements of an individual, and their career progression.

4 Role of job design in motivation

The content of a job can provide motivation for the job holder. We explore how and why this is the case in this section.

4.1 Job design as a motivator

The **job** itself can be used as a motivator, or it can be a cause of dissatisfaction. **Job design** refers to how tasks are organised to create 'jobs' for individuals.

Micro-design

One of the consequences of mass production and scientific management was what might be called a **micro-division** of labour, or **job simplification**. Micro-designed jobs have the following **advantages**.

(a) **Little training**. A job is divided up into the smallest number of sequential tasks possible. Each task is so simple and straightforward that it can be learned with very little training.

(b) **Replacement**. If labour turnover is high, this does not matter because unskilled replacements can be found and trained to do the work in a very short time.

(c) **Flexibility**. Since the skill required is low, workers can be shifted from one task to another very easily.

(d) **Control**. If tasks are closely defined and standard times set for their completion, production is easier to predict and control.

(e) **Quality**. Standardisation of work into simple tasks means that quality is easier to predict.

Disadvantages of micro-designed jobs, however, include the following.

(a) The work is **monotonous** and makes employees tired, bored and dissatisfied. The consequences will be high labour turnover, absenteeism, spoilage, unrest. People work better when their work is variable, unlike machines.

(b) An individual doing a simple task feels like a small cog in a large machine, and has no **sense of contributing** to the organisation's end product or service.

(c) Excessive specialisation **isolates** the individual in his or her work and inhibits not only social contacts with work mates, but knowledge generation.

(d) In practice, excessive job simplification leads to **lower quality**, through inattention and loss of morale.

Micro-designed jobs do not provide motivation for the individual. If jobs are to provide motivation, in the expectation that the content of the job may affect the performance of individuals, a different approach to job design is required.

4.2 Job enrichment

Frederick **Herzberg** suggested three ways of **improving job design**, to make jobs more interesting to the employee, and hopefully to improve performance, such as: job enrichment, job enlargement and job rotation.

JOB ENRICHMENT is planned, deliberate action to build greater responsibility, breadth and challenge of work into a job. Job enrichment is similar to **EMPOWERMENT**.

Job enrichment represents a 'vertical' extension of the job into greater levels of responsibility, challenge and autonomy. A job may be enriched by:

- Giving the job holder **decision-making tasks** of a higher order
- Giving the employee greater **freedom** to decide how the job should be done
- Encouraging employees to **participate** in the planning decisions of their superiors
- Giving the employee regular **feedback**.

Key factors in job enrichment

The main factors to take into account to achieve job enrichment include:

(a) Permitting workers greater freedom and control over the scheduling and pacing of their work, as opposed to machine pacing

(b) Avoiding excessive work division, so that workers are able to undertake the full cycle of a task to achieve a complete service

(c) Providing workers with tasks or jobs which challenge their abilities and make fuller use of their training, expertise and skills

(d) Giving workers greater freedom to work in self managing teams with greater responsibility for monitoring their own performance and a minimum of direct supervision

(e) Providing workers with the opportunity to have greater direct contact with clients, consumers or users of the product or service

It is also important to recognise that job enrichment usually involves giving the employee greater responsibility, or the opportunity to participate more in decision-making. This means that the organisation must be prepared to be more decentralised in its decision-making, and bosses may need to adopt a more democratic leadership style.

Job enrichment alone will not automatically make employees more productive. 'Even those who want their jobs enriched will expect to be rewarded with more than job satisfaction. Job enrichment is not a

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cheaper way to greater productivity. Its pay-off will come in the less visible costs of morale, climate and working relationships' (Handy).

4.3 Job enlargement

JOB ENLARGEMENT is the attempt to widen jobs by increasing the number of operations in which a job holder is involved.

Job enlargement is a 'horizontal' extension of the job by increasing task variety and reducing task repetition.

(a) Tasks which span a larger part of the total production work should reduce boredom and add to task meaning, significance and variety.

(b) Enlarged jobs might be regarded as having higher status within the department, perhaps as stepping stones towards promotion.

Job enlargement is, however, limited in its intrinsic rewards, as asking workers to complete three separate tedious, unchallenging tasks is unlikely to be more motivating than asking them to perform just one tedious, unchallenging task!

4.4 Job rotation

JOB ROTATION is the planned transfer of staff from one job to another to increase task variety.

Job rotation is a 'sequential' extension of the job. Herzberg used the example of a warehouse gang of four workers, to explain the concept of job rotation. The worst job for the gang was seen as tying the necks of the sacks at the base of the hopper, and the best job was being the fork lift truck driver. Job rotation would ensure that individuals spent equal time on all jobs.

Job rotation is also sometimes seen as a form of training or development, where individuals gain wider experience by rotating as trainees in different positions.

It is generally admitted that the developmental and motivational value of job rotation is limited – but it can reduce the monotony of repetitive work.

4.5 Job optimisation

A well designed job should provide the individual with five **core dimensions** which contribute to job satisfaction.

(a) **Skill variety**: the opportunity to exercise different skills and perform different operations

(b) **Task identity**: the integration of operations into a 'whole' tasks (or meaningful segments of the task)

(c) **Task significance**: the task is perceived to have a role, purpose, meaning and value

(d) **Autonomy**: the opportunity to exercise discretion or self-management (for example, in areas such as target-setting and work methods)

(e) **Feedback**: the availability of performance feedback enabling the individual to assess his progress and the opportunity to give feedback, be heard and influence results

4.6 Psychological requirements for job satisfaction

In order for an individual to experience job satisfaction, a number of psychological requirements will need to be met.

- The employee should have a strong understanding of **what exactly the job is**, the standards required to succeed in that job, and receive **feedback** as to his own performance.

- The work should be reasonably **demanding** and provide some **variety**. Anything which is perceived as too monotonous or insufficiently challenging by the individual is unlikely to provide job satisfaction.
- The individual should have some discretion over some area of **decision making**.
- The organisation should provide **social support** and **recognition** of its employees.
- The individual must be able to link his own work to the **overall objectives** of the organisation and understand how he contributes to the success of the organisation.
- The employee must believe that the job leads to some form of **desirable future**. However, this does not necessarily mean that there should be the opportunities for promotion or a specifically defined career path.

The content of a job can provide motivation for the job holder.

However, micro-job design and excessive work division and specialisation will not provide motivation.

Herzberg suggested two approaches to job design: job enrichment and job enlargement.

Job enrichment can create jobs that are more satisfying and motivating, but job enrichment involves some decentralisation of decision-making.

Job enlargement creates more variety, but it will not motivate individuals if the tasks in the enlarged job are all dull and not challenging.

Herzberg also considered job rotation. This can provide some personal development for employees, but does not provide motivating jobs.

In order for an individual to experience job satisfaction a number of psychological requirements need to be met.

EXAM ALERT

Job design could be examined in the context of how it influences motivation.

Chapter Roundup

- Motivation at work is a mental process whereby an individual decides how much effort to put into their work.
- Motivation is driven by the needs of individuals, and the satisfaction of those needs through work.
- Positive motivation makes an individual put more effort into work, and creates job satisfaction. It may also improve performance.
- Negative motivation is evidenced by low morale, dissatisfaction and high labour turnover.
- Managers may therefore look for ways of sustaining or improving the positive motivation of their employees, and avoiding negative motivation.
- There are many theories about motivation at work. These include the theories of Maslow, Herzberg, Vroom, McGregor, McClelland, Likert, Adams and Locke and Latham.
- Each theory suggests what management should do to improve the motivation of employees.
- Some theories, such as the expectancy theory of Vroom, attempt to explain the strength of motivation.
- Several theories also explain what demotivates individuals, and suggest what management should do to prevent demotivation as well as encourage motivation.
- One school of thought suggests that participation in decision-making can act as a motivator among employees. Quality circles are a good example of greater employee participation in process improvement.
- Individuals are motivated through a sense of personal achievement. A motivated individual seeks to achieve even more in the future.
- An employer can help an individual with personal achievement by providing career progression and development (as well as other ways of recognising achievement, such as higher pay). An organisation may have a career development programme.
- Individuals are able to achieve more if they have a programme for development.
- Personal development plans can be used for planning and reviewing the development and achievements of an individual, and his or her career progression.
- The content of a job can provide motivation for the job holder.
- However, micro-job design and excessive work division and specialisation will not provide motivation.
- Herzberg suggested two approaches to job design: job enrichment and job enlargement.
- Job enrichment can create jobs that are more satisfying and motivating, but job enrichment involves some decentralisation of decision-making.
- Job enlargement creates more variety, but it will not motivate individuals if the tasks in the enlarged job are all dull and not challenging.
- Herzberg also considered job rotation. This can provide some personal development for employees, but does not provide motivating jobs.
- In order for an individual to experience job satisfaction a number of psychological requirements need to be met.

Quick Quiz

1 According to Vroom's expectancy model of motivation, what is the connection between the following?

(a) Expectancy

(b) Motivation

(c) Valence

2 Herzberg made a distinction between motivator factors and hygiene factors. Which of the following factors at work are hygiene factors, and which are motivator factors?

(a) Quality of supervision

(b) Responsibility

(c) Advancement

(d) Relationships with colleagues

(e) Pay

3 According to Douglas McGregor, a manager is likely to have an authoritarian style of leadership if his attitude conforms to Theory X. **True or false**?

4 Maslow suggested that individuals can have seven different needs.

The need for freedom of expression, social needs, the need for knowledge, esteem needs, physiological needs, self-actualisation needs, safety needs.

Identify the five needs that Maslow put into his hierarchy of needs, in order from the lowest level of need to the highest level.

5 According to the goal theory of Locke and Latham, what five principles should be used in establishing a system of goals?

6 Which one of the following approaches to job design for an individual is most likely to provide motivation for the employee?

A Job rotation

B Job enlargement

C Job enrichment

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Answers to Quick Quiz

1 Motivation = Expectancy × Valence

2 Quality of supervision and relationships with colleagues, (a) and (d) are hygiene factors. Responsibility and achievement, (b) and (c) are motivator factors. Herzberg suggested that pay can be a hygiene factor, causing dissatisfaction if an employee considers it to be too low. It can also be a motivator factor, particularly over the short term.

3 True. Managers who have a Theory X view are likely to be authoritarian leaders.

4 Physiological needs (lowest), safety needs, social needs, esteem needs, self-actualisation needs (highest).

5
1 Clarity
2 Challenge
3 Commitment
4 Feedback
5 Task complexity

6 C Job enrichment

Answers to Questions

5.1 Motivation theories

Motivation theories attempt to explain the factors that motivate individuals to work harder or perform better in their work. Some theories (such as the hierarchy of needs) attempt to identify the factors that motivate individuals, and some (such as the two-factor theory) also suggest why individuals might be de-motivated. There are also theories, such as expectancy theory, that attempt to explain the strength of motivation.

Managers may want to create a work environment in which employees are well-motivated, and so will want to perform well. This assumes that a desire to perform well and personal job satisfaction will result in improved performance for the organisation as a whole. In order to motivate employees, management would need to understand the factors that create motivation, other than pay incentives.

An understanding of the theory of Herzberg might also help managers to understand that before individuals can be motivated, causes of job dissatisfaction should be dealt with first. Herzberg suggested that management should deal with dissatisfaction by doing something about hygiene factors before they consider ways of motivating employees positively (through motivator factors).

An understanding of goal theory can also be useful for managers by helping them to recognise the importance of realistic and challenging goals for employee motivation, and the need for a system of providing feedback on performance. Goal setting and feedback reporting are essential elements of management control systems.

5.2 Career development programme

A career development programme must be realistic. The organisation must be able to provide sufficient career opportunities to attract and motivate individuals. Career opportunities are often very limited in small organisations, and this is why individuals may leave and move on to work with a larger organisation at some stage in their career.

The programme should also have the full support and commitment of senior management. This means that there should be a policy of promoting individuals from within the organisation, rather than filling job vacancies by recruiting from outside.

It is also important that the career development process and opportunities are clear and transparent. Individuals need to understand what the future career opportunities will be, what hey need to do to be given an opportunity to progress and how long they may have to wait for such opportunities.

Individuals should be provided with the training, development and work experience that they need in order to progress in their career. The organisation should therefore have policies for training and personal development. This could include providing opportunities for deputising for a boss, secondment to project teams, job rotation and mentoring.

There should be a system of performance appraisal for employees, so that they receive feedback about their performance and have the opportunity to discuss their development and future prospects with their manager.

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CHANGE MANAGEMENT

chapter 6

Over time, organisations go through major changes, as they grow in size or change the nature of their operations and business activities. Change often involves a re-structuring of the organisation and there may be changes in the management. It is not uncommon for the 'old' senior management to leave after a change, to be replaced by new managers. There may also be a change in the organisation's culture.

This chapter begins by considering the nature of strategic change, and the different types of organisational change that may occur. It then goes on to discuss the 'triggers' that might set off a change process. Change must be managed. In practice, many attempts at major organisational change have not been successful, and management must have the skills and commitment to plan and implement the changes.

There is often resistance to change, especially to major changes. Management need to overcome this resistance, so that the change happens. Several writers have suggested ways of overcoming resistance to change, and some of these are described in this chapter.

Major change can also have an effect on the culture of an organisation and there may be ethical issues that should be considered when changes are introduced. The chapter ends with a brief discussion of these possible cultural and ethical implications of change.

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LEARNING OBJECTIVES

- Discuss the concept of strategic change (7A)
- Compare and contrast different types of change (7B)
- Explain the impact a range of change triggers could have on an organisation and its strategy (7C)
- Identify and explain techniques for managing the change process (7D)
- Explain the role of leadership in managing the change process (7E)
- Identify and explain the techniques for overcoming resistance to change (7F)
- Explain the relationship between the change process and organisation change (7G)
- Discuss ethical issues raised by change management processes and the implementation of strategic plans (7H)

1 Strategic change

Over time, change is inevitable as businesses develop and respond to changes in their environment.

Change is often initiated by strategic planning.

(a) A position audit may reveal serious weaknesses in the organisation that need to be dealt with, and the changes needed to deal with the problem may be substantial. The organisation may also identify strengths that it plans to exploit more fully, and its plans for doing this could involve big changes.

(b) Change is often a response to developments in the business environment (the micro-environment or the macro-environment).

To survive and ensure future success, organisations should respond to the challenges that environmental change presents. In developing strategies for the future of the business, organisational change becomes necessary.

Change management is concerned with managing the changes and developments that an organisation undertakes.

Business organisations must adapt and change in order to survive.

Initiatives for strategic change may begin with a position audit or environmental audit of the business.

2 Types of change

Change may be planned or unplanned, incremental or transformational, and a one-off event or a continuous process.

2.1 Planned and unplanned change

Change happens continually within organisations and their markets. Change may be planned or unplanned.

(a) **Planned change** (or **proactive change**) is deliberate and intended. Management identify the benefits that change will bring and plan how it should be introduced. Planned changes may be changes to exploit a new opportunity that has been identified.

(b) **Unplanned change** (or **reactive change**) happens in response to developments or events that have occurred. These changes are not devised as part of the planning process. Unplanned changes are often a response to new threats that have emerged in the environment

2.2 Incremental and transformational change

Change is also either incremental or transformational.

(a) **Incremental change** is a fairly small change. This type of change happens without the need for a major reorganisation or restructuring of the organisation. Incremental change should not be a serious problem for management.

(b) **Transformational change** is a major change that requires a substantial reorganisation or restructuring of the organisation and its systems. Transformational has a big effect on the organisation and the people working in it, and exceptional change management skills are needed to implement the change successfully.

Change is also either:

(a) A 'one-off' event, so that the organisation moves from an 'old' way of doing things to a 'new' way, or

(b) Continual, with change occurring over a long period of time.

This chapter is concerned mainly with 'one-off' transformational change and how it should be managed.

2.3 The nature of changes

Changes within an organisation may involve:

(a) A change in the organisation structure and management responsibilities
(b) A change in technology, such as introducing new equipment and systems
(c) A change in the physical setting for business operations
(d) Moving people around

Change may be planned or unplanned, incremental or transformational, and a one-off event or a continuous process.

Change may involve changes to the organisation and management structure, technological change, a change in physical setting or moving people around.

3 Triggers for change

Triggers for change are the reasons why change becomes either desirable or necessary. They originate either outside or within the organisation.

3.1 External triggers for change

External triggers for change are caused by changes in the environment. A PESTEL analysis of the macro-environment is a useful framework for analysing external triggers for change.

(a) **Political** reasons for change. A change in strategy might be caused by an unexpected political crisis, such as a civil war or major civil unrest in a country that is either a major source of raw material supply or a major export market.

(b) **Economic** reasons for change. Economic change can have a major impact on an organisation and force it to make changes. In recent years a notable development has been the rapid growth of the economy of China. Many large companies in the US and Europe have shut down production operations in Western countries and have changed to buying products and components from Chinese manufacturers. Some companies in Western Europe have moved production facilities to countries in Eastern Europe where costs are lower.

(c) **Social and cultural** reasons for change. A change in public attitudes and opinions might persuade an organisation to alter its strategy. For example, there might be a change in public attitudes to food safety and hygiene. If this is significant, a food manufacturer might decide to change its strategy for new product development, or alter its production methods to improve the hygiene in its production systems.

(d) **Technological** reasons for change. Companies need to adopt new technology to continue to succeed in their business. A clear example of the pressure for change is the rapid development of information technology and telecommunications in recent years. Unless they had adopted the new technology, it would have been virtually impossible for any competitive business (except for very small businesses) to survive.

(e) **Ecological** reasons for change. Major strategic changes might be triggered by changes in the ecological environment. Climate change may force companies to re-consider the location of their operations, perhaps because of a threat to the water supply or major changes in weather conditions.

(f) **Legal** reasons for change. Change may be triggered by important changes in the law, such as changes in employment law or new laws against pollution.

PESTEL analysis can be used to analyse triggers for change in the macro-environment. Change may also be triggered by changes in the micro-environment.

Examples of strategic change are:

(a) Companies may need to respond to the globalisation of business by changing their organisation to meet the competitive threat from foreign multinational companies that are seeking to invest in the country.

(b) There may be a serious fall in demand for the organisation's products, because they are reaching the end of their life cycle, prompting the need for a strategy for survival through change.

(c) Change may be prompted by the need or desire to respond to a competitive threat. When the market is dynamic and continually changing, organisations need to adjust their competitive strategy continually, and there may be a continual process of change.

3.2 Internal triggers for change

Change may be triggered by developments within the organisation.

(a) **Change in senior management**. When there is a change in the senior management of an organisation, the new managers may have their own ideas about strategy and will introduce big changes.

(b) **Acquisition**. When an organisation takes over another in an acquisition, and management try to merge their systems and operations, there will be major changes. For example, the merged

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organisations may try to use the same computer system. Switching from one computer system to another may create significant challenges.

(c) **Reorganisation or downsizing**. Change might be necessary because management decides on the need to close down a loss-making organisation or re-locate its operations to a different part of the country.

Some changes are less 'transformational' than others, and are easier to implement. For example, change may be triggered by:

(a) A general sense that the organisation could perform better

(b) A perceived need to improve organisational flexibility, quality or to develop new customer concern

(c) A sense that skills and abilities of people are under-utilised or concerns about a lack of commitment from employees

(d) Concerns about ineffective communications or poor performance indicators

(e) Fractious relationship between managers and the managed

3.3 Growth as a trigger for change: Greiner's growth model

As an organisation grows in size, it has to go through change in its organisation structure and management. In the 1970s, Greiner developed a model which suggested that companies go through five phases of growth as they get bigger. At each stage, the organisation and management structure is different. The change from one phase of growth to the next is caused by a crisis.

	Phase	Nature of organisation and management	Crisis that causes change to the next phase
1	Growth through creativity	Entrepreneurial business. Over time the organisation becomes a bit more structured, but lacks planning and control systems. Grows to a point where it is inefficient.	
			Crisis of leadership Management must become more 'professional'.
2	Growth through direction	Management is more professional and organisation more functional. Formal systems of planning and control. 'Traditional' management hierarchy on a functional basis.	
			Crisis of autonomy Centralised management control becomes inefficient. Local managers demand more decentralisation.

	Phase	Nature of organisation and management	Crisis that causes change to the next phase
3	Growth through delegation	The organisation is more decentralised with business divisions. Divisional managers increase their authority and power. Head office remains responsible for corporate strategy. However, as the organisation continues to grow, head office management realise that they are losing control over the organisation to the local divisional heads.	
			Crisis of control Head office management must change the organisation and management structure, to avoid losing control.
4	Growth through co-ordination	Head office monitor business divisions closely, through sophisticated reporting systems. Divisional heads still have authority, but are made more accountable. Eventually divisional heads become annoyed about the extensive interference and monitoring from head office.	
			Crisis of red tape There is excessive report-writing and bureaucracy.
5	Growth through collaboration	Not many organisations have reached this stage. There is a greater emphasis on teamwork and problem-solving, and less emphasis on formal reporting systems and accountability.	

At the end of each phase of development, considerable change is needed to move on to the next phase, affecting the entire organisation its management and the other employees who work in it.

6.1 The need for change

QUESTION

What is change and why is it necessary for organisations to change over time?

Change may be triggered by developments in the environment (micro-environment or macro-environment) or by a perception of weaknesses or strengths within the organisation.

Greiner developed a model to indicate how major changes in organisation and management occur as an organisation grows, and how change follows a crisis in management and organisation.

4 Managing change

Planned change management involves planning how to get to a desired new way of doing things from the current position. This involves planning the objective of change, and how to achieve the objective, implementing the change and making the change stick.

4.1 Managing planned change

When change is planned, management should have an idea of what they are trying to achieve, and the future state of the organisation or business that they are trying to get to. Planned change is managed effectively when:

(a) The organisation is moved from its current state to a planned future state that will exist after the change

(b) The transition is accomplished without excessive cost to the organisation

(c) The transition is accomplished without excessive cost to the employees in the organisation

(d) The planned future state, when it has been reached, meet expectations, and the change works as planned

Change management requires:

- Identification of the changes that should be made
- Recognising the need to change systems and organisation structures to make the changes work successfully
- Recognising the effect of change on employees: this aspect of change management is often overlooked, but is probably the most common reason why attempts to make major changes are unsuccessful
- Careful planning and implementation of the change
- Making sure that the changes 'stick' and remain in place, after they have been made

4.2 Lewin's Force Field Analysis

Kurt Lewin, a social psychologist, developed a theory called **force field analysis** to describe the forces that come into conflict over planned changes. He argued that in managing change, it is necessary to be aware of forces that are driving the need for change, and forces that resist change. There are two groups of forces:

(a) The **driving forces** that support the need for change, and
(b) The **restraining forces** that oppose and resist the change

Any of the following factors could be either a driving force or a restraining force:

- The people involved in the change, and what they want for themselves
- Their habits and customs
- Their attitude to the proposed change
- The relationships between the people involved
- The resources available to make the change
- The organisation structure
- Regulations
- Events (happenings)

Each driving force or restraining force has a strength, which Lewin suggested could be measured on a scale of one to five. In this way the total strength of driving forces and the total strength of restraining forces can be measured and compared.

Lewin also argued that:

(a) Change will not occur if the restraining forces are stronger than the driving forces for change
(b) Change is possible only when the driving forces are stronger than the restraining forces

The managers of change should therefore ensure the strength of the driving forces is stronger than the strength of the restraining forces. There are two ways that this can be done.

(a) By strengthening the driving forces for change, or
(b) By reducing the restraining forces against change

Lewin suggested that if management tries to strengthen the driving forces for change, the restraining forces might grow in strength as an adverse reaction. He therefore recommended that change managers should focus their efforts on reducing the restraining forces against change.

4.3 Managing change: the views of Kotter and Cohen

In practice, implementing change is difficult, and things can go wrong. The expected benefits might fail to materialise. Kotter and Cohen, in their book *The Heart of Change* (2002), have suggested that there should be eight stages for any **large-scale** change that will have a major impact on the organisation.

(a) Stage 1: **Increase urgency**. Management should create a sense of urgency and a belief that change is needed. A sense of urgency should help to overcome attitudes of complacency or resistance to change. Individuals who will be affected by the change should be fully informed why the change is necessary, and persuaded to agree with this view.

(b) Stage 2: **Build the guiding team**. The guiding team is the team of managers who will be responsible for planning and implementing the change. The team members should have experience and knowledge of the system or organisation that will be changed, and the environment in which it operates. They should have leadership and management skills, and should be able to work together constructively as a team.

(c) Stage 3: **Get the vision right**. The guiding team should have the authority to develop a vision of the future for the organisation, and what the organisation will be like. This vision may be developed out of strategic plans for the organisation, but it is important that the vision should present a positive picture of the future.

(d) Stage 4: **Communicate for buy-in**. The guiding team must communicate their message of change and its benefits. They should do this personally and confidently, and they should address the anxieties of employees who may be resistant to the change.

(e) Stage 5: **Empower action**. This process of introducing change is mostly about removing the barriers to major change.

    (i) There may be a 'boss barrier', where bosses are resistant to the change. Kotter and Cohen suggested that to deal with this barrier the change resistant managers should be given responsibility for areas where there are big problems and the need for change is most obvious. This will help the managers to see and understand the problems that the changes are attempting to overcome.

    (ii) There may be a 'system barrier', where individuals are reluctant to try out new ideas and new systems. Kotter and Cohen suggested that these barriers might be reduced if individuals know they will not be punished (or miss out on rewards) if they try something new.

    (iii) There may be 'barriers in the mind', which means that some individuals may hold the belief that any large scale change cannot possibly succeed and will inevitably fail. Kotter and Cohen suggested that a solution might be to communicate information about small-

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scale success stories on the path towards change, to let people know that positive progress is being made.

(iv) There may be a 'personal information barrier' caused by an inability of individuals to see how they fit into the organisational change. Kotter and Cohen suggested that a way of dealing with his problem is to let employees see themselves in an environment where they do not feel threatened, perhaps by showing them videotapes.

(f) Stage 6: **Create short-term wins**. Major change often takes a long time to complete. Managers should therefore find 'short-term wins' and communicate them, so that individuals are made aware of success stories and positive progress on the path to change. However, success should be real and communicated accurately, whereas over-hyped stories about success that are blown out of all proportion will eventually create a mood of cynicism and disbelief in management.

(g) Stage 7: **Don't let up**. The managers responsible for change should not let up. They should maintain the momentum for change.

(h) Stage 8: **Make change stick**. After change has been made, managers and employees have a tendency to go back into old ways of doing things. Management should make the changes stick. They should promote individuals who represent the new ways of doing things and the new corporate culture. If necessary, the organisation should hire new employees who do not have any attachment to the old ways, and so who should accept the new ways without a problem.

Planned change management involves planning how to get to a desired new way of doing things from the current position.

Planning involves planning the objective of change, and how to achieve the objective, implementing the change and making the change stick.

Lewin developed a force field analysis theory, suggesting that the driving forces for change need to be stronger than the restraining forces that resist change. This should be done by making efforts to reduce the restraining forces.

Kotter and Cohen have made recommendations about how change management should approach the extremely difficult task of implementing major transformational changes.

5 Role of leadership in managing change

Leaders play a central role in managing the change process. Without careful leadership organisational change is unlikely to be successful.

5.1 Kanter on change management

Rosabeth Moss Kanter, in the book *The Change Masters: Corporate Entrepreneurs at Work*, suggested that leaders acting as 'agents for change' in an organisation should define their proposals or projects in a way that makes them more acceptable. This can be done by making the proposals or projects:

(a) **Triable**. This term means that the change can be tried out, perhaps by means of a small pilot test, before the full-scale introduction.

(b) **Reversible**. This means that the change can be reversed if it does not work out as intended.

(c) **Divisible**. This means that if the change has several different aspects or parts, and one of them does not work out as intended, the part that has not worked can be reversed and the parts that have been successful can remain in place.

(d) **Concrete**. This means that the change is expressed in 'concrete' terms of what will actually happen instead of expressed in general terms and abstract language, with a broad objective but no detail about how to get there.

(e) **Familiar**. The change should be something that people can recognise and become familiar with.

(f) **Congruent**. This means that the change should seem to fit in with the rest of the organisation and be consistent with existing policies and practice.

(g) **'Sexy'**. This means that the change should have good publicity value and should be able to cause excitement when announced.

5.2 Leadership skills in managing change

Kanter also identified seven 'classic' skills that are useful for organisational leaders in managing change. She described these as follows:

(a) **Tuning into the environment**. Creating a 'network of listening posts', such as listening to customer complaints so that they are aware of what is going on in the environment.

(b) **Challenging the prevailing organisational wisdom**. This means getting others in the organisation to accept that the old ways of doing things are no longer necessarily the best ways.

(c) **Communicating a compelling aspiration**. You can't change things successfully without a conviction. Change managers should have this conviction and should communicate it to others.

(d) **Building coalitions**. Change leaders need the involvement of people of people who have resources, knowledge or political clout to make things happen. They need to build coalitions with people who are prepared to support them.

(e) **Transforming ownership to a working team**. Once a 'coalition' is in place, a change leader can enlist others to implement the change. They don't need to make the change themselves. They can delegate responsibility to the team.

(f) **Learning to persevere**. Change will not go smoothly and there will be setbacks. Change managers must be able to keep on trying until they succeed.

(g) **Make everyone a hero**. Change managers should recognise, reward and celebrate the accomplishments of everyone who has contributed to the change process.

Kanter identified characteristics of change that should make them more acceptable and more likely to succeed. She also identified the necessary qualities of a successful change manager.

6 Resistance to change and techniques for overcoming

All models for change management recognise the importance of people and attitudes to change. Attempts to introduce change often fail because of the resistance of people to the changes and opposition to the idea of doing things in the new way.

6.1 Attitudes to change

Some employees might support change. More often, they fear change and resist change, for a variety of reasons:

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(a) **Reasons related to the job**

(i) Employees might think that the change will put their job at risk

(ii) They might think that their current skills will no longer be required: this is often why people resist the introduction of new technology

(iii) Employees might fear that their working conditions will become worse

(b) **Personal reasons**

(i) Employees might fear that the change will make them less important within the organisation

(ii) They might think that the change will make their job less interesting

(iii) They might see the change as a form of criticism by management and that they have not been doing their job well enough

(iv) They might be reluctant to learn new skills

(v) They might simply dislike the idea of change

(c) **Social reasons**

(i) Employees might resist change because they think it will break up their work group, so that they no longer work with the colleagues they know

(ii) They think that the change will mean that they have to work a lot harder

(iii) They might dislike the managers responsible for making the changes

(iv) They may resent the way that the change is being forced through, without any consultation with the people affected

6.2 Lewin's 'Three Stage' change process

Earlier in the chapter we introduced the work of Kurt Lewin when we considered his force field analysis theory. Lewin also suggested a three-stage process for introducing major change into an organisation.

Accepting change

Lewin argued that:

(a) It is often difficult to persuade people about the benefits of change – that change is desirable and will have a positive effect.

(b) People should be persuaded about the need for change before the change actually takes place.

(c) After a change has been made, there is a risk that people will eventually return to the 'old way of doing things', so that the effects and benefits of the change are lost – in other words, the changes might not last long.

Lewin suggested that in order for people to accept change, they must understand the reasons for it. They need to know:

- Why the change is necessary
- What the problems are with the current way of doing things
- What opportunities there are for improvement
- Why change might be desirable
- What benefits change will bring

Three stages in the change process

Planned change should then go through a three-stage process. Lewin called these:

- Unfreeze
- Change (or Movement)
- Re-freeze

Unfreeze

This is the first stage in the change process. It is the process of getting individuals to recognise that change is desirable. Their initial attitudes and views are 'frozen' and they do not see the need for any change. Their opinions need to be 'unfrozen'.

There are two aspects to 'unfreezing':

- Individuals need to feel dissatisfied with the current state of affairs.
- They should then be persuaded that the planned change will bring desirable improvements.

Changing attitudes calls for considerable 'people management' skills of communication and persuasion.

Change (or movement)

The second stage in the process is to make the change and move from the old way of doing things to the new way. Lewin argued that this stage should not begin until the unfreezing stage is completed.

The change needs to be made successful, and management responsible for implementing the change should be given all the resources they need to complete their task.

Implementing the change is more likely to be successful when the individuals affected are allowed to participate closely in the process, by providing ideas and offering suggestions about how to deal with any unexpected problems that arise.

Throughout this stage of the change process, there must be continuing support for the change. If any opposition to the change re-emerges, management should not try to force through the change. Instead they should try to understand the reasons for the new resistance, discuss the problems with the individuals affected, and look for a satisfactory solution.

Re-freeze

The third and final stage in the planned change process is 're-freeze'. After a change has been made, there may be a natural tendency for individuals to go back to their old ways of doing things and their old ways of thinking.

The attitudes of individuals must be frozen again, but this time they should be frozen into believing that the new approach is good and desirable.

Lewin suggested that one way to re-freeze attitudes is to reward individuals within the new changed system, for example by paying a bonus or higher salary.

6.3 Kotter and Schlesinger: the Six Change Approaches model

Kotter and Schlesinger (1979) developed a different model for overcoming resistance to change. It is called the six change approaches model because it suggests six different approaches to overcoming resistance to change. The most suitable approach to adopt depends on the reason for the resistance and the power of the individuals concerned to resist the proposed changes.

Kotter and Schlesinger suggested that there are four reasons why individuals may resist change.

(a) **Parochial self-interest**. They may resist change because they are concerned about the negative consequences of the change for themselves. They are concerned with how the change will affect them, not how the change will benefit the organisation.

(b) **Misunderstanding**. Individuals may misunderstand the nature of the change or the reason why it is necessary. Misunderstanding may occur because of:
   (i) Communication problems
   (ii) Failure to provide adequate information about the change

(c) **Low tolerance to change**. Some people resist change because they like stability and security in their life, and they think that change will be too disruptive.

(d) **Different assessments of the situation**. Some individuals may have a different opinion about the need for change, and disagree with the proposals that have been made.

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The Six Change Approaches identified in the model are as follows:

(a) **Education and communication.** If the resistance to change is caused by misunderstanding, management should deal with the problem by educating and informing employees. The aim should be to remove the misunderstanding. This is the most convenient way of managing change, but it will only be effective if the resistance has been caused by misunderstanding.

(b) **Participation and involvement.** It may be possible to overcome resistance to change by involving employees in the change process. This may be appropriate when the individuals have some power to resist the change, but their resistance is not very strong. Participation and involvement may go some way to lowering their resistance, as they become familiar with what the change involves.

(c) **Facilitation and support.** Management may decide to prevent resistance by offering help and support to individuals who are worried about the change. This may be appropriate when the employees have a low resistance to change and are likely to be anxious about it. Measures to provide facilitation and support might include counselling, special training or even giving individuals some time off work.

(d) **Negotiation and agreement.** This approach may be necessary when the individuals who are resisting the change are in a position of power and may be able to resist successfully. Management might negotiate with them to reach a deal. This could involve offering them money to retire from work or to leave the company.

(e) **Manipulation and co-option.** If the organisation cannot afford to pay employees to accept change or leave the organisation, an alternative approach to change is to invite the individual to join the change management team, even though the individual would not have any skills or ability to bring to the team. This would be making a gesture, for the sake of appearances. It would only be appropriate when the individual concerned is in a position of power to resist the change.

(f) **Explicit or implicit coercion.** Coercion means forcing people to accept the change or accept the consequences if they don't. This approach is recommended only when the change has to be implemented quickly, or as a last resort when other approaches have been unsuccessful. Management may announce that the proposed change will be implemented, and they may threaten anyone who resists the change with dismissal, no promotion or transfer to another job.

Attempts to introduce change are often unsuccessful, mainly because of resistance by the individuals who are affected by the change and hostile to it.

Some writers have recommended how management should overcome the resistance to change:

- Lewin proposed an 'unfreeze, change and re-freeze' approach.
- Kotter and Schlesinger developed a Six Change Approaches model, suggesting that a different approach to change should be used in different circumstances.

EXAM ALERT

Lewin's three stage change process and Kotter and Schlesinger's six change approaches model are important theories in change management. Make sure you know the theories and their relevance to successful change management.

7 Organisational culture and change

Some organisations are better at making changes than others. Kanter suggested that change-adept organisations have the imagination to innovate, professionalism to perform and openness to collaborate.

7.1 A change culture within the organisation

Some organisations are more capable of adapting to change than others. The management writer Rosabeth Moss Kanter suggested that there are cultural reasons why an organisation might be better than others in accepting change.

According to Kanter, 'change-adept' organisations have three key attributes:

(a) **Imagination to innovate**. This comes from a leadership that seeks new ideas for positive change. Management are innovators.

(b) **Professionalism to perform**. The managers of the entity are competent at introducing change. In other words, they are skilled at change management. In addition, the work force may have the experience and skills to recognise the inevitability of change. As a result there is a culture of change within the organisation.

(c) **Openness to collaborate**. Change-adept organisations share ideas with other organisations, such as customers, suppliers and joint venture partners. They can work well with other organisations in making changes. For example, a change in product design or production methods may require support from the organisation's main suppliers. In order to make the change, there has to be collaboration with the suppliers and an agreement on how the change can be made.

7.2 Changing the culture

Transformational change may also result in a change in the culture of the organisation. For example, if there is an organisational change from a functional management structure to a decentralised structure with business divisions, employees will have to get used to a new way of doing things and a new set of management attitudes.

If managers and other employees do not like the new way of operating, they might decide to leave the organisation. If they do, new people will be recruited who accept the new system. As a result, a permanent change in culture may occur.

6.2 Managing resistance to change

QUESTION

How can resistance to change be minimised or managed?

Some organisations are better at making changes than others. Kanter suggested that change-adept organisations have the imagination to innovate, professionalism to perform and openness to collaborate.

Major changes may result in a change in organisational culture, especially if it results in the departure of many existing employees and the recruitment of new employees.

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8 Ethical issues

Many organisations are aware that they have a responsibility to the society in which they operate and that they should act as a 'good corporate citizen', recognising the effect that their operations have on people and communities. The main objective of a company may be to make profits for the shareholders, but it also has responsibilities to its employees and their families and to society in general.

Very large companies should be more aware of their social responsibilities than smaller companies, because they employ more people and their activities have a much bigger impact on the national economy and society in general.

When a company is making a major change, it is therefore appropriate to give consideration to the ethical issues that may arise as a consequence of the change.

Some of the ethical issues that may arise, and may be considered by management, are as follows.

(a) Will the change mean that some employees will lose their jobs? Can anything be done to offer them alternative work, for example by re-training them in new skills?

(b) Will the change affect the living conditions of people near the organisation's business location? Is there any risk of pollution to the local area?

(c) If the change will mean recruiting skilled workers, should the organisation be offering job and training to people in the local community?

When introducing major changes, an organisation that is aware of its ethical and social responsibilities will give consideration to ethical issues, such as the welfare of its employees and their families, and the interests of the local community and the environment.

EXAM ALERT

Ethics is a topical area, ensure you are aware of ethical issues surrounding change management.

Chapter Roundup

- Business organisations must adapt and change in order to survive.
- Initiatives for strategic change may begin with a position audit or environmental audit of the business.
- Change may be planned or unplanned, incremental or transformational, and a one-off event or a continuous process.
- Change may involve changes to the organisation and management structure, technological change, a change in physical setting or moving people around.
- Change may be triggered by developments in the environment (micro-environment or macro-environment) or by a perception of weaknesses or strengths within the organisation.
- Greiner developed a model to indicate how major changes in organisation and management occur as an organisation grows, and how change follows a crisis in management and organisation.
- Planned change management involves planning how to get to a desired new way of doing things from the current position.
- Planning involves setting the objective of change, and how to achieve the objective, implementing the change and making the change stick.
- Lewin developed a force field analysis theory, suggesting that the driving forces for change need to be stronger than the restraining forces that resist change. This should be done by making efforts to reduce the restraining forces.
- Kotter and Cohen have made recommendations about how change management should approach the extremely difficult task of implementing major transformational changes.
- Kanter identified characteristics of change that should make them more acceptable and more likely to succeed. She also identified the necessary qualities of a successful change manager.
- Attempts to introduce change are often unsuccessful, mainly because of resistance by the individuals who are affected by the change and hostile to it.
- Some writers have recommended how management should overcome the resistance to change:
  - Lewin proposed an 'unfreeze, change and re-freeze' approach.
  - Kotter and Schlesinger developed a six change approaches model, suggesting that a different approach to change should be used in different circumstances.
- Some organisations are better at making changes than others. Kanter suggested that change-adept organisations have the imagination to innovate, professionalism to perform and openness to collaborate.
- Major changes may result in a change in organisational culture, especially if it results in the departure of many existing employees and the recruitment of new employees.
- When introducing major changes, an organisation that is aware of its ethical and social responsibilities will give consideration to ethical issues, such as the welfare of its employees and their families, and the interests of the local community and the environment.

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Quick Quiz

1 Rosabeth Moss Kanter (*The Enduring Skills of Change Leaders*) wrote that she had found certain 'classic skills' to be equally useful to CEOs, senior executives and middle managers who want to move an idea forward and introduce change. Which of the following five skills did she describe as creating 'a network of listening posts'?

A Communicating a compelling aspiration

B Challenging the prevailing organisational wisdom

C Learning to persevere

D Tuning into the environment

2 Kanter identified the skills that are needed in a change manager. Match the three skills below (a) to (c) with their meaning in (d) to (f).

Skill		Meaning	
(a)	Building coalitions	(d)	Delegating responsibility for introducing the change
(b)	Communicating a compelling aspiration	(e)	Involving other people in change and winning their support
(c)	Transforming ownership to a working team	(f)	Demonstrating a conviction and belief in the need for change

3 What is the Lewin three-stage approach to introducing change?

A Establish a timetable for change, draw up a plan for change, implement the change

B Unfreeze existing behaviour, change attitudes and behaviour, refreeze new behaviour

C Change top management attitudes, change management style, change employee behaviour

D Change individual attitudes, change group attitudes, change organisational culture

4 According to Lewin's theory of force field analysis and organisational change, which one of the following statements is correct?

A Anxiety about job security is a force for change

B To make a change successfully it is more effective to try reducing restraining forces than to try making stronger the drivers for change

C If the forces resisting change are exactly equal in strength to the drivers for change, then change will occur

D A driving force for change is work pressure and having to meet deadlines, leaving little free time for the people affected by the change

5 Suppose that the management of an organisation want to merge two operations, but are meeting resistance to the change from the employees affected. According to Lewin's force field theory, which one of the following would be a measure to overcome the resistance to change by strengthening the driving forces?

A Announcing that the merger is essential and that anyone unhappy with it is free to resign

B Offering larger financial incentives to the employees

C Emphasising to employees the importance of the merger for the long-term benefit of the organisation

D Promising no redundancies as a result of the merger

6 According to Kotter and Schlesinger, which change approach is most appropriate when everything else has failed?

Answers to Quick Quiz

1 D Change managers should remain aware of changes in the environment and should have a network or sources for obtaining information.

2 (a) Building coalitions. Meaning = (e)

(b) Communicating a compelling aspiration. Meaning = (f)

(c) Transforming ownership to a working team. Meaning = (d)

3 B Lewin developed an 'unfreeze, change, re-freeze' model for change.

4 B Lewin suggested that when the restraining forces against change are stronger than the driving forces for change, management should look for ways of reducing the strength of the restraining forces.

5 A The other suggestions are for ways of reducing the strength of the forces resisting change.

6 Coercion

Answers to Questions

6.1 The need for change

Change means doing things differently. In organisations, change may involve a change in the organisation and management structure, a change in technology, a change in the physical setting for operations or moving people around and getting them to do different things (a change in systems and procedures).

There are different types of change. It may be planned and deliberate, or it might happen as an unplanned reaction to events. Change may also be a fairly small incremental change, or a major transformational change. Organisations go through many incremental changes, but in order to grow and succeed they must occasionally go through transformational change. Transformational change is strategic in nature.

Greiner argued that organisational and management changes are inevitable as an organisation grows in size. This is because the existing structure becomes inefficient, so that eventually there is a crisis of management and changes are introduced to remove the inefficiencies. This is why, for example, many growing companies change from a simple structure when they are small and entrepreneurial to a functional structure and then to a decentralised divisional structure.

The need for change is brought about by factors that might be called 'triggers' for change. These are developments within the organisation itself or in its environment. Some of the changes provide positive opportunities for development. Other changes are measures that are necessary to deal with environmental threats or weaknesses within the organisation.

For example, change may occur as a reaction to initiatives within the industry and markets in which the organisation operates, such as an increase in investment in the country by foreign companies. Local companies may have to consider changes to react to the new circumstances. Changes may occur in response to changes in the macro-environment, and new political, economic, social, technological, ecological or legal conditions.

In summary, the need for change should be seen in the context of the objectives of the organisation. The objective of a business organisation may be to provide increasing returns to its owners through growth. In order to grow and be profitable, and in many cases in order to survive, changes must happen in response to changing conditions.

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6.2 Managing resistance to change

Attempts to introduce change into an organisation often fail because of the strength of the resistance. Lewin suggested that change will not happen successfully if the restraining forces that oppose change are stronger than the driving forces in favour of change, and to manage this problem, the change managers should focus on ways of reducing the strength of the restraining forces.

There are several models for managing the resistance to change, so that the resistance is either reduced or overcome. One approach, suggested by Kotter and Schlesinger, is very useful because it identifies different reasons for resistance to change and suggests different ways of managing the resistance according to the circumstances.

In their six change approaches model, they suggested that the reasons for resistance to change by the people affected may be parochial self-interest, misunderstanding of the purpose or the nature of the proposed change, a low tolerance to change by people who prefer stability and security in their work, and disagreement about the need for the change.

Kotter and Schlesinger suggested that the resistance can be dealt with in different ways, but the most appropriate approach should be appropriate for the circumstances.

(a) When the resistance to change is caused by misunderstanding, this should be dealt with by communicating better and providing more information to explain the reasons for the change and the effects that it will have. Better communication may also help to persuade individuals who have disagreed so far with the need for the change.

(b) Overcoming to resistance requires careful management when individuals are in a position to provide effective resistance to the change (and so have 'power' to resist it). In some circumstances, there may be a general hostility to the change among a group of workers. It may be possible to overcome their resistance by involving them in the change process. By participating in the change process, individuals may learn to appreciate the need for change and to become familiar with the change process and what the new system will require them to do. In this way, their resistance may be minimised.

(c) When there are employees who are anxious about the change and what it will mean for them, their job and their families, management may be able to reduce the fear of change (and so the resistance to change) by providing support. This may involve giving them training in the skills they will need for the new system, or providing counselling or time off work to individuals suffering from stress.

(d) Some individuals, especially managers, may be in a position where they are able to provide effective resistance to the change. Kotter and Schlesinger suggested that if the organisation has enough money, it may be appropriate to negotiate with them and pay them to win their support. As a condition of the agreement, they may be persuaded to retire or resign from their job, and leave the organisation. They can then be replaced with new managers who support the change.

(e) If the organisation does not have the money to negotiate a settlement with powerful individuals opposed to the change an alternative approach might be to co-opt them into the change management team, even though they do not have the skills or motivation to implement the change successfully. Including them in the change management team would give them status and would be a gesture for the sake of appearances. However, it might be sufficient to win their co-operation (or at least silence their criticism).

(f) When everything else as failed, or in a situation where it is essential to make the change quickly, management may use threats and coercion. If individuals continue to resist the change they may be threatened with dismissal, or the transfer to another job. Managers resisting the change may be told they will have no future in the organisation and cannot expect to be promoted.

LEARNING OBJECTIVES

- Describe the role of the HR management function (8A)
- Explain the process of recruitment and selection (8B)
- Describe the methods that can be used in recruitment and selection (8B)
- Define training and development (8C)
- Describe how the process of training and development improves performance/productivity in organisations (8C)
- Explain the purpose and process of performance evaluation (8D)

1 Human resources management

Human resource management (HRM) is concerned with assessing the needs of the organisation for employees (human resources), finding people to meet those needs and getting the best performance from them. This section provides an overview of HRM and the human resource cycle.

HUMAN RESOURCES are the people who work for an organisation.

HUMAN RESOURCE MANAGEMENT (HRM) is the process of evaluating an organisation's human resource needs, finding people to fill those needs, and getting the best work from each employee by providing the right incentives and job environment. It has the overall aim of helping an organisation achieve its goals.

PERSONNEL MANAGEMENT deals with day to day issues such as hiring and firing and industrial relations in general. Unlike HRM, it does not play a strategic role in an organisation.

1.1 The objectives of HRM

It is possible to identify **four main objectives of HRM.**

(a) To **develop an effective human component** for the organisation that will respond effectively to change

(b) To **obtain and develop the human resources** required by the organisation and to **use** and **motivate** them **effectively**

(c) To **create and maintain a co-operative climate** of relationships within the organisation and to this end to perform a 'fire fighting' role dealing with disputes as they arise

(d) To meet the organisation's **social and legal responsibilities** relating to its human resources

1.2 Why is HRM important?

Effective human resource management and employee development are strategically necessary as they contribute to the success of the organisation. Particular benefits of HRM are:

(a) **Increased productivity.** Developing employee skills might make employees more productive.

(b) **Enhanced group learning.** Employees work more and more in multi-skilled teams. Each employee has to be competent at several tasks. Some employees have to be trained to work together as a team.

(c) **Reduced staff turnover.** Training and developing staff often reduces turnover rates. This increases the effectiveness of operations and profitability as staff become more experienced.

(d) **Encouragement of initiative.** Organisations can gain significant advantage from encouraging and exploiting the present and potential abilities of the people within them.

Employees represent a scarce and crucial resource which must be obtained, retained, developed and mobilised for organisational success. Recruitment and training are core aspects of business strategy.

1.3 Human resource management

Human resource management (HRM) is based on the assumption that the management and deployment of staff is a key **strategic factor** in an organisation's competitive performance. HRM requires top management involvement and the **promotion** of **culture** and **values**, so that employees' commitment, as opposed merely to their consent, is obtained.

HRM reflects a **wider view** than **traditional personnel management** which is primarily concerned with managing day-to-day operations.

Armstrong (2003) defined HRM as 'a strategic approach to the acquisition, motivation, development and management of the organisation's human resources'.

Definition of HRM

Bratton and Gold (1999) gave a more detailed definition of HRM. 'HRM emphasises that employees are crucial to achieving sustainable competitive advantage, that human resources practices need to be integrated with the corporate strategy, and that human resource specialists help organisational controllers to meet both efficiency and equity objectives.'

A precise interpretation of HRM centres on the following notions.

(a) The **personnel function** has become centrally concerned with issues of broader relevance to the business and its objectives, such as change management, the introduction of technology, and the implications of falling birth rates and skill shortages for the resourcing of the business.

(b) HRM should be **integrated with strategic planning.** The objectives of the HR function should be directly related to achieving the organisation's goals for growth, competitive gain and improvement of 'bottom line' performance.

(c) HRM managers should be **professionals.**

1.4 Roles of HRM

S Tyson and A Fell (*Evaluating the Personnel Function*) suggest **four major roles** for human resource management.

(a) To represent the organisation's **central value system** (or culture)

(b) To **maintain the boundaries of the organisation** (its identity and the flow of people in and out of it)

(c) To provide **stability and continuity** (through planned succession and flexibility)

(d) To adapt the organisation to **change**

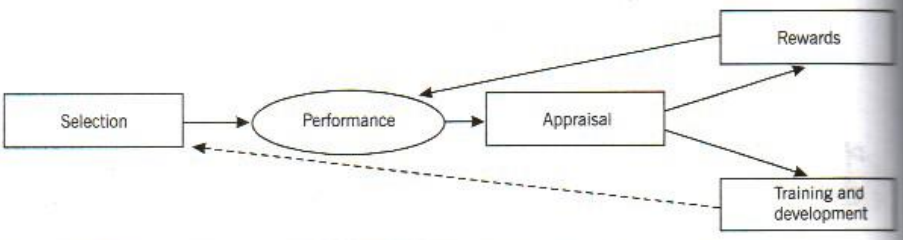
Some companies have a **separate human resource function** with staff authority over other departments. Smaller companies are not able to afford the cost of a specialist HR function

HRM is therefore a **set of activities** that may or may not have a separate department to manage them.

1.5 The Human resource cycle

The key activities in human resource management can be described as a cycle consisting of four key activities: recruitment and selection, performance appraisal, rewards and training and development.

Human resource cycle



(a) **Selection (and recruitment)** is important to ensure the organisation obtains people with the qualities and skills required.

(b) **Appraisal** enables targets to be set that contribute to the achievement of the overall strategic objectives of the organisation. It also identifies skills and performance gaps, and provides information relevant to reward levels.

(c) **Training and development** ensure skills remain up to date, relevant, and comparable with (or better than) the best in the industry.

(d) The **reward system** should motivate and ensure valued staff are retained.

The performance of employees depends upon each of the four components and how they are co-ordinated.

The Development Bank of Zambia

EXAMPLE

The Development Bank of Zambia (DBZ) is a joint venture between the Zambian government and private sector institutions. The DBZ's website provides an interesting insight into its approach to human resources management. The following extracts from the DBZ's website highlight the importance that the bank places on people in the organisation, and in particular the role of the human resources department in supporting the operations of the bank.

Our Objective

To develop an employee value proposition that will ensure attraction, development and stabilisation of the talent base to earn us the right to grow and fulfil the mandate of the Bank. Going forward our priorities will be:

- Right people, right place, right role
- Sustainable talent pipeline
- Implementing the Performance Management and Reward process

HR Purpose

The Department is responsible for providing specialised HR concepts, methods, techniques, and professional judgement and advice to the Development Bank of Zambia (DBZ) geared towards the effective and efficient utilisation of the Bank's Human Resource.

All things being equal, the annual HR Delivery Charters will continue to be based on the following principles:

- That it is a means of linking DBZ's changing business goals and strategies to Human Resource objectives and activities.
- That it is a means of re-aligning the HR activities in order to play its core function and to effectively contribute to the varying operational needs of the Bank.

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- That it is a response to the changing pattern of competencies on the job-market, mainly caused by rapid in Changes in Information and Communication Technology (ICT) and the socio-economic and political environment.
- That it is a means of cushioning DBZ from the pressure of human resource imbalances, which occur from time to time, and to help determine well in advance, the impact that the imbalance may cause on both labour costs and performance.

Source: The Development Bank of Zambia (2016) *Our Objectives and HR Purpose.* [Online]. Available from: http://www.dbz.co.zm/careers/ [Accessed 7 July 2016].

1.6 Key concepts in preparing for recruitment and selection

Before recruiting and selecting individuals to work for their organisation, HR managers must understand what job vacancies there are, what the jobs consist of, and what type of person should be selected to fill the job vacancy.

This information can be obtained through job analysis, role analysis and the preparation of job descriptions and person specifications.

Job analysis

The purpose of **job analysis** is to investigate a job and analyse the requirements of the job. From a job analysis, a job description can be prepared, which can be used in the recruitment and selection process.

The type of information that may be obtained in a job analysis is set out below.

Type of information	Comments
Purpose of the job	This might seem obvious. However, an important starting point is to establish the purpose of the job and why someone needs to do it.
Content of the job	These are the tasks that the job holder is expected to do. They should be recorded in detail. This is probably the biggest part of the job description.
Responsibility	This sets out the importance of the job. What is the job holder responsible for? Does the job holder have subordinates?
Accountability	These are the results for which the job holder is responsible and who the job holder reports to and is responsible to.

Competences and role analysis

Role analysis establishes the **competences** that the job holder should have, in terms of behavioural competences (soft skills, or behaviour expectation) and the technical or functional competences (hard skills).

A person's **competence** is 'a capacity that leads to behaviour that meets the job demands within the parameters of the organisational environment and that, in turn, brings about desired results' (Boyzatis).

(a) **Behavioural/personal** competences are underlying personal characteristics and behaviour required for successful performance, for example, 'ability to relate well to others'. Most jobs require people to be good communicators.

(b) **Work-based/occupational competences** are 'expectations of workplace performance and the outputs and standards people in specific roles are expected to obtain'. For example, a competence for a senior financial accountant in a company may be to 'produce financial and other statements and report to management'.

(c) **Generic competences** can apply to all people in an occupation.

Some generic competences for managers are shown in the following table.

Competence area	Competence
Intellectual	• Strategic perspective • Analytical judgement • Planning and organising
Interpersonal	• Managing staff • Persuasiveness • Assertiveness and decisiveness • Interpersonal sensitivity • Oral communication
Adaptability	• Flexibility • Coping with change
Results	• Initiative • Motivation to achievement • Business sense

Job description

A **JOB DESCRIPTION** is a full description of a job, set out in writing as a formal document. It sets out:

- The purpose of the job
- Where it fits in the organisation structure
- The responsibilities of the job holder
- The accountabilities of the job
- The main tasks the holder carries out

A job description is a valuable document for the recruitment process. It also has other uses.

Purpose	Comment
Organisational	Defines the job's place in the organisational structure
Recruitment	Provides information for identifying the sort of person needed (person specification)
Legal	Provides the basis for a contract of employment
Performance	Performance objectives can be set around the job description

Person specification

A **PERSON SPECIFICATION** sets out the personal qualities of the type of individual who will be most likely to perform the job well. The person specification may cover aspects of personality such as:

- Intelligence
- Qualifications
- Inter-personal skills
- Motivation and commitment
- Personality: whether the person is calm, independent-minded, and so on
- Personal circumstances: for example a particular job may require that the job holder can drive a car

Human resource management is concerned with assessing the needs of the organisation for employees (human resources), finding people to meet those needs and getting the best performance from them.

Personnel management is a term used for the day to day administration of matters relating to employees.

There are four main elements in HRM: recruitment and selection, performance appraisal, training and development and the rewards system.

A starting point for the recruitment and selection process is job analysis and competence analysis (role analysis), and the preparation of job descriptions and personal specifications for each job.

2 Recruitment and selection

Effective recruitment practices ensure that an organisation has enough **people with the right skills.** The **overall aim of the recruitment and selection process** in an organisation is to obtain the quantity and quality of employees required to fulfil the objectives of the organisation.

2.1 Overview of recruitment and selection

The recruitment and selection process can be broken down into three main stages.

(a) **Defining requirements**, including the preparation of job descriptions, job specifications and person specifications.

(b) **Attracting applicants:** this involves advertising or notifying people about the job vacancy in some way, or enlisting the help of a specialist job recruitment agency, and then receiving applications from individuals who are interested in the job.

(c) **Selecting** the appropriate candidates for the job, from among the applicants.

RECRUITMENT is the part of the process concerned with finding applicants. It is a positive action by management, going into the labour market (internal and external), communicating opportunities and information which generate interest in potential candidates to apply for the job.

SELECTION involves selecting the best applicant for the job and it is largely a 'negative' process, eliminating unsuitable applicants. However, during the selection process, it is also necessary to persuade the applicants that they would like to get the job. Otherwise the applicant who is eventually selected and offered the job might decide not to accept it.

A socially responsible employer may have a policy of using **existing staff** (internal recruitment and promoting individuals from within the organisation) rather than recruiting from outside.

Responsibility for recruitment and selection

The recruitment process involves **personnel specialists** and **line managers**, sometimes with the help of recruitment **consultants**.

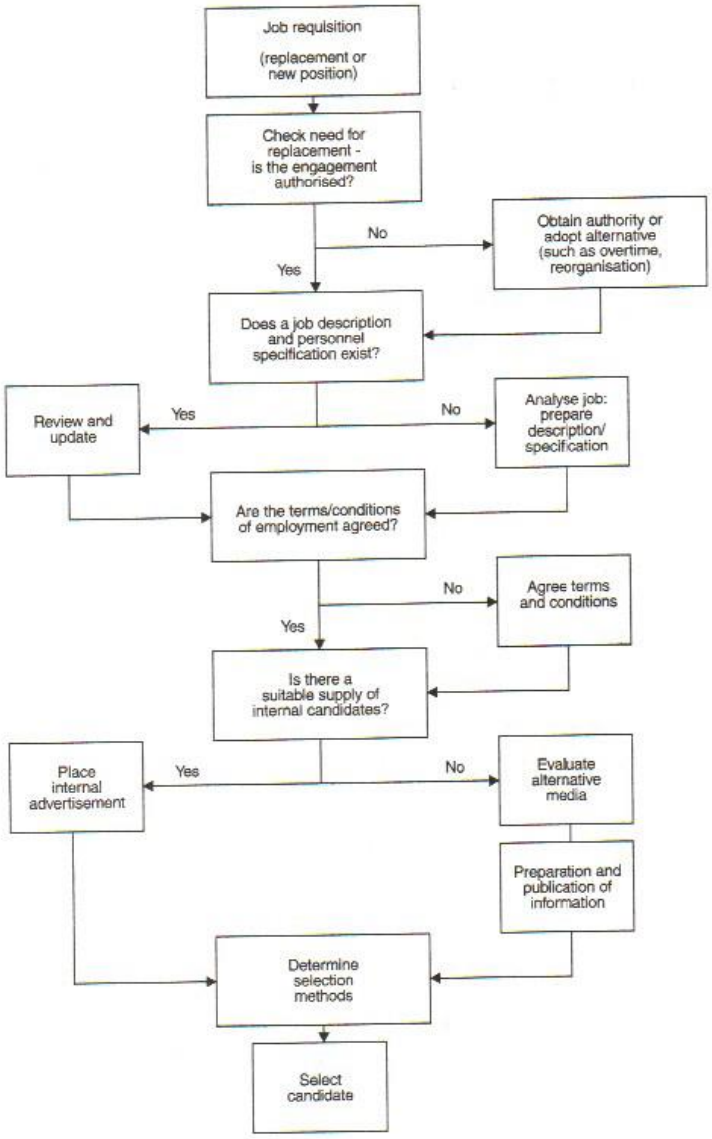
The people involved in recruitment and selection vary from organisation to organisation. For management positions, it might be normal practice for a personnel manager and a line manager in the department where the job vacancy exists to be involved in recruitment and selection.

2.2 The recruitment and selection process

Recruitment is a systematic process of (a) identifying and defining skill needs and (b) attracting suitably skilled candidates. The process should be consistent with the organisation's strategies for future labour requirements (skills and numbers), training and development policies, and career development policy.

Recruitment **begins with the identification of vacancies**, from the requirements of the human resource plan or by a **job requisition** from a department that has a vacancy. Once a job description and person specification for a job have been prepared, the stages in the recruitment and selection process are as set out in the diagram below.

The Recruitment Process



2.3 Advertising the job vacancy

Jobs must be brought to the attention of people who might want to apply for them. The job may be advertised:

- Within the organisation (internally) to existing employees
- Externally, to people outside the organisation
- Both internally and externally

For internal recruitment, the HR department may carry out an internal search within the organisation for suitable candidates for the job(s). Attracting external candidates to apply could be through the use of media advertising, employee referrals, public and private employment agencies, school placements and/or temporary help services.

Advantages of recruiting internally

There are several advantages in giving a job to an internal applicant within the organisation:

(a) A policy of internal promotion may improve the morale and motivation of the work force.

(b) Internal promotion provides a career development opportunity to talented individuals who might otherwise leave the organisation.

(c) The employer will know much more about an internal applicant for a job than an external applicant – for example, how well they have performed in their current job.

(d) Internal applicants understand the organisation and its culture.

(e) Recruiting internally may be less costly than using a recruitment agency to help with external recruitment, and less expensive than external advertising.

Advantages of recruiting externally

There may also be advantages in recruiting someone from outside the organisation.

(a) The organisation might not have employees with the skills required for the job.

(b) Recruiting people externally will bring 'new thinking' into the organisation.

(c) The organisation may be recruiting new people because is growing, and there are not enough internal applicants to fill the job vacancies.

(d) There may not be a person inside the organisation who is suitable for the job.

(e) The vacancies may be for low-level jobs in the organisation that existing employees do not want to apply for.

2.4 Job application form

Applicants for a job are often asked to fill in a job application form. This is usually a standard application form, used by an organisation for all its job vacancies. Each applicant for the job fills in an application form, providing some basic information about themselves, such as:

(a) **Personal details** about the applicant – name, address, contact telephone number, age

(b) **Details of schooling and other education** and any educational qualifications or other formal qualifications (diplomas, certificates and so on)

(c) **Details of the individual's current job** and **previous work experience**

(d) The applicant's **social and leisure interests** and activities

(e) An application form for a management position should also include a question asking the applicant to explain why they want the job, or what they are hoping to achieve in their future career

Job application forms have only a limited value because:

(a) They usually contain limited information about the applicant. Although this information might be used to rank the applicants, and identify individuals who are clearly not suitable for the job, the application forms cannot be used to identify the best candidate for the job. For example, they cannot be used to assess the qualities of the applicants, such as their intelligence, motivation and social/interpersonal skills.

(b) Applicants might provide false information, particularly about their qualifications and experience. It may not be possible or practical to check every application form for honesty.

2.5 Selection methods

There are various ways of selecting candidates who will be offered a job. These are set out in the table below. An organisation may use just one selection method, but is more likely to use a combination of methods.

Selection tests	• Intelligence
	• Aptitude
	• Personality
	• Proficiency
	• Medical
Work sampling	• Portfolios
	• Trial periods or exercises
Group selection methods	• Assessment centres
Interviewing	• Individual (one to one)
	• Interview panels

When there are many applicants for a job, and interviews will be used to make the final selection, it is impossible to interview all the applicants. There has to be a way of reducing the applicants to a shortlist of candidates for interview.

One way of eliminating applicants is by studying their **application forms**. The information that an applicant provides on the form may be sufficient to indicate whether he or she is likely to be suitable for the job.

2.6 Selection testing

Selection tests can be used before or after interviews. There are two basic types of tests.

(a) **Proficiency and attainment** tests measure an individual's demonstrated competence in particular job-related tasks.

(b) **Psychometric** tests measure such psychological factors as aptitude, intelligence and personality.

Proficiency or competence tests

Proficiency tests are designed to measure an individual's current ability to perform particular tasks or operations relevant to the job: for example, giving a secretarial candidate a typing test.

(a) **Attainment** (or competence) tests are a similar measurement of the standard an individual has reached at a particular skill. There is a wide range of proficiency testing material available, including 'in-tray' exercises (simulating work tasks).

(b) **Work sampling**, described earlier, is a form of proficiency test.

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(c) **Intelligence tests** are tests of general intellectual ability. Typically they test memory, ability to think quickly and logically, and problem solving skills. They are a good measure of general intellectual ability, but are not necessarily a good guide to the suitability of individuals for a job.

Psychometric tests (personality tests)

Personality tests may measure a variety of characteristics, such as an applicant's skill in dealing with other people, ambition and motivation, or emotional stability. The validity of such tests has been much debated, but is seems that some have been shown by research to be valid predictors of job performance, so long as they are used properly.

Limitations of testing

Despite current enthusiasm for selection testing, it has its limitations.

(a) There is not always a direct relationship between ability in the test and **ability in the job**, because the job situation is very different from artificial test conditions.

(b) The **interpretation of test results** is a skilled task, for which training and experience is essential. It is also highly subjective (particularly in the case of personality tests), which belies the apparent scientific nature of the approach.

Advantages of testing

Tests may however be a useful way of reducing the number of job applicants to a shortlist. They may also be useful when used together with other selection methods, such as selection interviews. It would usually be inappropriate, however, to offer individuals a job simply on the basis of the results in a test.

2.7 Work sampling

Work sampling is a personnel selection device in which job applicants are presented with a miniature replica of a job and are asked to perform tasks central to that job. Applicants have an opportunity to demonstrate that they possess the necessary skills and talents by actually doing the tasks. This job sampling testing technique is more suitable for routine jobs.

2.8 Assessment centres

Assessment centres are more elaborate performance simulation tests specifically designed to evaluate the managerial potential of candidates. A group of candidates are assessed at the same time over a period of a few days.

Line executives, trained psychologists and supervisors evaluate the candidates as they go through two to four days of exercises that simulate real problems they would confront on the job. An assessment centre device is suitable for the recruitment and assessment of junior managers with potential to advance far in their careers.

2.9 Interviews

Selection **interviews** may be conducted on a one to one basis (one interviewer, one candidate) or a panel basis (several interviewers and one candidate).

The **purposes of the selection interview** include:

(a) Finding the **best person** for the job, by giving the organisation a chance to assess applicants (and particularly their interpersonal and communication skills) directly

(b) Making sure that applicants **understand** what the job involves, what career prospects are available, and other aspects of the employment relationship on offer

(c) Giving the best possible **impression** of the organisation as a prospective employer

Individual interviews

Individual face to face interviews are a common selection method, especially for senior management positions.

Advantages include:

(a) Direct face to face communication, with opportunities for the interviewer to use both verbal and non-verbal cues to assess the candidate

(b) Rapport between the candidate and the interviewer: each has to give attention solely to the other, and there is potentially a relaxed atmosphere, if the interviewer is willing to establish an informal style

(c) Flexibility in the direction and follow-up of questions

Disadvantages include the following.

(a) The candidate may be able to disguise lack of knowledge in a specialist area of which the interviewer knows little

(b) The interviewer's perception may be selective or distorted, and this lack of objectivity may go unnoticed and unchecked

(c) The greater opportunity for personal rapport with the candidate may cause a weakening of the interviewer's objective judgement

In addition to traditional face to face interviews, an increasing number of organisations are now conducting interviews by telephone and via the internet using online video chat technologies. Such developments enable the interviewer to interview geographically dispersed candidates.

Panel interviews

Panel interviews are designed to overcome the disadvantages of one to one interviews. A panel may consist of two or three people who together interview a single candidate: most commonly, an HR specialist and the departmental manager who will have responsibility for the successful candidate. This saves the firm time and enables better assessment.

Advantages of interviews

Interviews in general are by far the most popular selection method used by organisations. They offer some significant advantages.

(a) They are highly interactive, allowing flexible question and answers. This allows candidates opportunities to ask questions, and allows questions and responses to be adapted to the direction and style of the interview.

(b) They offer opportunities to use non-verbal communication, which might confirm or undermine spoken answers (e.g. a candidate looking hesitant or embarrassed when making competence claims). This is particularly helpful to interviewers when challenging or probing in relation to inconsistencies or gaps in a candidate's application or answers.

(c) They offer opportunities to assess a candidate's personal appearance (relevant in areas such as grooming), interpersonal and communication skills.

(d) They offer initial opportunities to evaluate rapport between the candidate and his or her potential colleagues/bosses.

The limitations of interviews

Interviews are criticised, however, because **they fail to provide accurate predictions** of how a person will perform in the job, partly because of the nature of interviews, partly because of errors of judgement by interviewers.

Problem	Comment
Scope	An interview is too brief to 'get to know' candidates in the kind of depth required to make an accurate prediction of work performance.
Artificiality	An interview is an artificial situation: candidates may be on their best behaviour or, conversely, so nervous that they do not do themselves justice. Neither situation reflects what the person is really like.
The halo effect	A tendency for people to make an initial general judgement about a person based on a single obvious attribute, such as being neatly dressed or well-spoken. This single attribute will colour later perceptions, and make an interviewer mark the person up or down on every other factor in their assessment.
Contagious bias	The interviewer changes the behaviour of the applicant by suggestion. The applicant might be led by the wording of questions, or non-verbal cues from the interviewer, to change what they are doing or saying in response.
Stereotyping	Stereotyping groups together people who are assumed to share certain characteristics (women, say, or vegetarians), then attributes certain traits to the group as a whole. It then assumes that each individual member of the supposed group will possess that trait.
Incorrect assessment	Qualitative factors such as motivation, honesty or integrity are very difficult to define and assess objectively.
Logical error	For example, an interviewer might decide that a young candidate who has held two or three jobs in the past for only a short time will be unlikely to last long in any job. (This isn't necessarily the case.)
Inexperienced interviewers	Inexperienced or unskilled interviewers may undermine the process through: • Inability to evaluate information about a candidate properly • Failure to compare a candidate against the job description or person specification • Failure to take control of the direction and length of the interview • Using inappropriate question types to elicit data or put candidates at ease • A reluctance to probe into facts or challenge statements where necessary

2.10 Reasons for ineffective recruitment and selection

The recruitment and selection process might be ineffective, as a result of the following:

(a) Not enough people apply for job vacancies (poor recruitment)
(b) Unsuitable individuals are selected (poor selection)
(c) The selected candidates refuse the job when it is offered to them
(d) Individuals do not stay in the job for long after their appointment

There are several reasons for poor recruitment and selection procedures.

Poor recruitment

There are several possible reasons for a failure to attract a sufficient number of suitable applicants for a job.

(a) The requirements of the job are not properly considered before the job is advertised, so that the vacancy is advertised to individuals with unsuitable skills.

(b) The job itself is not attractive enough, or the pay is too low, so that not many people apply for the vacancy.

(c) The job vacancies are advertised in an unsuitable way. The vacancy may not come to the attention of people who might apply if they knew about it.

Poor selection

Reasons for poor selection may be as follows.

(a) A badly designed application form, so that applicants do not provide enough relevant information about themselves. A candidate may therefore be offered the job on the basis of insufficient information.

(b) The selection techniques are inappropriate. Tests may be used that do not indicate the suitability of the candidate for the job.

(c) The individuals making the selection (for example, the individuals doing the selection interviews) are not trained in selection, and do not have the necessary skills to do the task well. For example, interviewers may not be skilled at interviewing.

(d) The effectiveness of the selection process is not monitored and reviewed regularly, so that management are unaware of the failures of selection in the past.

As a result, the best applicants are not selected, and in some cases unsuitable candidates are offered the job.

7.1 Recruitment

QUESTION

Getting the right candidate for a job is always a challenge for managers and any mistake in recruiting the wrong candidate can turn out to be very expensive for the company. Give an account of the steps you may use in recruiting the correct candidate.

Recruitment is the process of finding applicants for job vacancies.

Selection is the process of deciding which applicants should be offered the job(s).

Job vacancies may be advertised internally, externally or both internally and externally.

Internal recruitment and selection may be part of the organisation's policy for career development for its employees.

Job application forms are an important document for recruitment and selection: applicants use them to apply for a job and they can be used to screen applicants and eliminate any who seem unsuitable.

Methods of selecting from applicants include selection tests, work sampling, group selection methods such as appraisal centres and selection interviews. Organisations may use just one or several of these methods.

Weaknesses in the recruitment and selection process may result in a shortage of applicants for job vacancies, selecting unsuitable candidates, or selected candidates choosing to turn down a job offer.

3 Training and development

In order to achieve its goals, an organisation requires a skilled workforce. This is partly achieved by training employees.

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3.1 Factors affecting job performance

There are many factors affecting a person's performance at work. Training and development are one method by which an organisation may seek to improve the performance of its staff.

3.2 What is training and development?

The main **purpose** of training and development is to raise competence and therefore performance standards. It is also concerned with personal development, helping and motivating employees to fulfil their potential.

DEVELOPMENT is 'the growth or realisation of a person's ability and potential through the provision of learning and educational experiences'.

TRAINING is 'the planned and systematic modification of behaviour through learning events, programmes and instruction which enable individuals to achieve the level of knowledge, skills and competence to carry out their work effectively' (Armstrong).

Education is the development of knowledge that is acquired gradually, by learning and instruction, whereas training is the development of skills that are related to working. Education involves the development of knowledge and ability that is not related directly to work. Key education skills are literacy skills – reading and writing skills – and skills in arithmetic and other forms of mathematics.

3.3 Skills that might be covered by a training or education programme

Many modern organisations spend millions of kwacha training staff so that they remain modern and relevant to any possible changes in the operating environment. Skills obtained from training institutions deteriorate and can become obsolete over time. The focus should be not just on training but retraining as well.

There are four general skills training categories: basic literacy, technical, interpersonal and problem solving skills.

(a) **Basic literacy skills.** This is a common type of training (strictly, education) that takes place in Zambia. However companies may spend millions of kwacha teaching employees basic reading and maths skills for their employees. For example, in the tourism business this kind of training is popular because lodges are constructed in rural and remote areas where employees may be recruited from rural communities where standards of education are very low. Other organisations provide education to employees where standards of literacy are low.

(b) **Technical skills.** Most training in business organisations is directed at strengthening the employee's technical and work-related skills. This is particularly important in organisations that have to adapt to the use of new technology, where the work force needs to acquire new skills. Organisations also need some employees to develop specialist skills, including skills in accounting, which are developed through training.

(c) **Interpersonal skills.** Very few employees work alone and work performance depends on the ability of individuals to interact with other co-workers and their supervisors to get things done. Some employees have excellent interpersonal skills but others need training to improve their interpersonal skills. Good interpersonal skills demands that one learns to be a good listener, illustrate how to communicate ideas clearly and how to be a more effective team player.

(d) **Problem-solving skills.** For senior managers, training might be provided in high-level management skills, such as problem solving skills. Training in problem solving involves activities aimed at sharpening skills in logic, reasoning and the ability to assess the cause of a problem, develop alternative solutions, analyse the alternatives and select the best solution.

3.4 Benefits of training

Training offers significant **benefits** for both employers and employees – although it is **not** the solution to every work problem.

Benefits for the organisation

Training offers some significant benefits for the organisation.

Benefit	Comment
Minimised the costs of obtaining the skills the organisation needs	Training supports the business strategy.
Increased productivity, improving performance	Training may improve productivity in some types of work.
Fewer accidents, and better health and safety	National laws may require a certain level of training.
Less need for detailed supervision; reduced supervisory costs	If people are trained they can get on with the job, and managers can concentrate on other things. Training is an aspect of empowerment.
Flexibility	Training ensures that people have the variety of skills needed: acquiring several skills is only possible if people are properly trained.
Recruitment and succession planning	Opportunities for training and development attract new recruits and ensure that the organisation has a supply of suitable managerial and technical staff for the future.
Retention	Training and development helps to satisfy the need of employees for self-development. It may help to keep the employee loyal to the organisation, instead of leaving to join a different employer.
Change management	Training helps organisations to manage change by letting people know why the change is happening and giving them the skills to cope with it.

Benefits for the employee

For the **individual employee**, the benefits of training and development are as follows.

Benefit	Comment
Enhances skills	Even if not specifically related to the current job, training can be useful in other contexts. The employee becomes more attractive in the labour market ('employability') and more valuable within the organisation.
Psychological benefits	Improving competence leads to greater self-esteem and confidence.
Social benefit	People's social needs can be met by training courses, which can also develop networks of contacts.
The job	Training can help people do their job better, thereby increasing job satisfaction, and possibly promotion and earning prospects.

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3.5 Training methods

There are a variety of **training methods**. These include:

- Off the job education and training (formal training)
- On the job training

Formal training

Off the job training minimises risk but does not always support transfer of learning to the job.

Off the job training is formal training conducted outside the context of the job itself in special training rooms or off site facilities.

(a) **Courses** may be run by the organisation's training department or may be provided by external training organisations, colleges or universities. Training may be in the form of:

  (i) **Day release**: the employee works in the organisation and on one day per week attends a local college or training centre for theoretical learning

  (ii) **Distance learning, evening classes and correspondence courses**, which make demands on the individual's time outside work

  (iii) **Revision courses** for examinations of professional bodies

  (iv) A **sponsored full time course** at a university for one or two years

(b) **Computer-based training** involves interactive training via PC. The typing program Mavis Beacon is a good example.

(c) **E-learning** is computer-based learning through a network of computers or the internet (rather than standalone CD-Rom or software). Learning support is available from online tutors, moderators and discussion groups

Benefits and limitations of formal training

The advantages and disadvantages of off the job training may be summarised as follows.

Advantages	Disadvantages
Allows exploration/experimentation without the risk of consequences for actual performance	May not be directly relevant to the job of the individual
Allows focus on learning, away from distractions and pressures of work	May be perceived as a waste of working time
Allows standardisation of training Suits a variety of learning styles (depending on the method used)	Immediate and relevant feedback may not be available (for example, if performance is assessed by exam)
May confer status, and improve the prospects of the individual for promotion	Is often theoretical rather than practical, and this does not suit every individual
	May represent a threat, suggesting that the individual is inadequate in his job

On the job training

On the job training maximises transfer of learning by incorporating it into 'real' work.

On the job training utilises real work tasks as learning experiences. Methods of on the job training include the following.

(a) **Demonstration/instruction**: show the trainee how to do the job and let them get on with it. It should combine telling a person what to do and showing them how, using appropriate media. The trainee imitates the instructor, and asks questions.

(b) **Job rotation**: the trainee is given several jobs in succession, to gain experience of a wide range of activities.

(c) **Temporary promotion**: an individual is promoted into his/her superior's position while the superior is absent. This gives the individual a chance to experience the demands of a more senior position.

(d) **'Assistant to' positions (or work shadowing)**: an employee may be appointed as assistant to a more senior or experienced person, to gain experience of a new or more demanding role.

(e) **Action learning**: managers are brought together as a problem-solving group to discuss a real work issue. An 'advisor' facilitates, and helps members of the group to identify how their interpersonal and problem-solving skills are affecting the process.

(f) **Committees**: trainees might be included in the membership of committees, in order to obtain an understanding of inter-departmental relationships.

(g) **Project work**: work on a project with other people can expose the trainee to other parts of the organisation.

Benefits and limitations of on the job training

The advantages and disadvantages of on the job training may be summarised as follows.

Advantages	Disadvantages
Takes account of job context: high relevance of learning to the job	Undesirable aspects of doing the job (group norms, corner-cutting) are also learned
Suits 'hands on' learning styles: offers 'learning by doing'	Doesn't suit some individuals who prefer 'hands off' formal learning
Develops working relationships as well as skills	Risks of throwing people in at the deep end with real consequences of mistakes
	Distractions and pressures of the workplace may hamper learning focus

3.6 Induction training

INDUCTION is the process whereby a person is formally introduced and integrated into an organisation or system. The individual learns about the organisation.

The purposes of induction

The purposes of induction are to:

(a) Help new recruits to find their bearings

(b) Begin to socialise new recruits into the culture and norms of the team/organisation

(c) Support recruits in beginning performance

(d) Identify on-going training and development needs

(e) Avoid initial problems at the 'induction crisis' stage of the employment life cycle, when frustration, disorientation and disappointment may otherwise cause new recruits to leave the organisation prematurely

3.7 Development

DEVELOPMENT includes a range of learning activities and experiences (not just training) to enhance employees' or managers' portfolio of competence, experience and capability, with a view to personal, professional or career progression.

Development

Development consists of measures to fulfil an individual's potential. It will include training and education, but should also include other learning experiences whereby employees are:

(a) Given **work experience** of increasing challenge and responsibility, which will enable them move onto to other more senior jobs in due course of time

(b) Given **guidance, support and counselling** to help them to formulate personal and career development goals

(c) Given suitable **education and training** to develop their skills and knowledge

(d) Helped to **plan their future** and identify opportunities open to them in the organisation

Approaches to development

Approaches to development include the following.

Approach	Comment
Management development	'An attempt to improve managerial effectiveness through a planned and deliberate learning process' (Mumford). This may include the development of management/leadership skills (or competences), management education and planned experience of different functions, positions and work settings, in preparation for increasing managerial responsibility.
Career development	Individuals plan career paths. The trend for delayered organisations has reduced opportunities for upward progression: opportunities may be planned for sideways/lateral transfers, secondments to project groups, short external secondments and so on, to offer new opportunities.
Professional development	Professional bodies offer structured programmes of continuing professional development (CPD). The aim is to ensure that professional standards are maintained and enhanced through education, development and training self-managed by the individual. A CPD approach is based on the belief that a professional qualification should be the basis for a career lifetime of development **and** adherence to a professional code of ethics and standards.
Personal development	Businesses are increasingly offering employees wider-ranging development opportunities, rather than focusing on skills required in the current job. Personal development creates more rounded, competent employees who may contribute more innovatively and flexibly to the organisation's future needs. It may also help to foster employee job satisfaction, commitment and loyalty.

Individuals should discuss their personal development with their manager, and agree measures that might be taken to develop further. A review of development may take place as part of the individual's performance review process.

3.8 Coaching and mentoring

Individuals are able to improve their personal effectiveness at work through coaching and mentoring. Coaching and mentoring are therefore forms of development for individuals.

Coaching

Coaching is on the job training given to an individual by a person with knowledge and experience, who might well have been trained in coaching skills. For example, an individual might be taught how to do the job by an experienced colleague or by a supervisor.

The teacher or coach:

- Shows the individual how the work should be done
- Watches the trainee doing the work, and
- Gives advice and instructions when necessary

A well-known type of coaching is sports coaching and the use of 'personal trainers' for leading sports stars.

Coaching may be described as on the job training where the trainee is given close supervision, advice and assistance. This differs from normal on the job training where the amount of supervision and assistance is much less.

Mentoring

Mentoring means giving guidance and advice.

(a) A mentor is a wise and knowledgeable person with a lot of experience. They are highly respected.

(b) The mentor gives advice to an inexperienced person when it is needed, for example when the individual is having problems with their work and needs guidance or reassurance.

(c) When an organisation has a formal system of mentoring, individuals are assigned to their own mentor.

A formal mentoring system may therefore be defined as a supportive relationship over a period of time between a 'novice' and an 'expert', to provide support for the 'novice' through a learning process and helping with personal and career development.

Whereas coaching helps an individual with technical skills, mentoring helps an individual with management skills.

Mentoring

EXAMPLE

A person who is new to an organisation may be paired with a more experienced person, who gives guidance and advice, and acts as a 'role model'.

Mentoring may be used to prepare 'high-flying' junior managers for leadership roles in the future. A junior manager may be attached to a senior manager, who gives guidance that will help them to develop their management skills.

7.2 Training

QUESTION

Why might a large or medium-sized company be reluctant to train its employees? What are the disadvantages of failing to invest in training?

The purpose of training and development is to obtain a skilled work force, by raising standards of competence of employees and improve their work performance. It is also concerned with personal development, helping and motivating employees to fulfil their potential.

Training and education consists of instruction to learn particular skills, such as literacy skills, technical skills and, in some cases, interpersonal skills and problem-solving skills.

Training may be on the job training or formal off the job training, provided either externally by colleges, universities and other training organisations, or internally by the organisation's own trainers.

Induction training may be given to new recruits, to familiarise them with the organisation and its business.

Development of individuals includes education and training. It also involves work experience through job rotation, secondments and standing in for absent supervisors, counselling, mentoring and career planning.

4 Performance evaluation

Performance management aims to get better results for the organisation and evaluation of individual performance. In this section, we look in detail at performance appraisal, which is part of the system of performance management.

Performance appraisal involves:

(a) Setting targets or standards of performance that each individual is expected to achieve over a period of time (typically one year or less)

(b) Reviewing the performance of the individual periodically (at least once each year) and comparing what the individual has achieved with what was expected

Performance appraisals can be a part of the personal development of individuals, although they can have other purposes too.

4.1 Purpose of performance evaluation

Appraisal can be used to **reward** but also to identify **potential**. It is part of performance management and can be used to establish areas for improvement and **training and development** needs.

Performance evaluation is a common aspect of normal life.

(a) In the school curriculum for instance tests are held each semester, and at the end of grade 9 and 12 examinations are held for pupils to progress from one grade to another. Those who fail do not progress.

(b) In examinations, candidates may be graded from A to F, from those who are outstanding to those who fail. The way in which each candidate is then treated depends on the grade achieved.

The appraisal of performance leads to differentiation and the performance evaluation system has a direct influence in the behaviour of employees.

The general purpose of any appraisal system is to improve the efficiency of the organisation by ensuring that the individuals within it are performing to the best of their ability and developing their potential for improvement. This has three main components.

(a) **Performance review**. Evaluation can be used to identify training needs, when unsatisfactory performance indicates a weakness or deficiency in the skills or knowledge of an individual.

(b) **Rewards review**. Performance evaluation is used as a basis for decicing reward allocations, such as bonus payments and increases in pay.

(c) **Potential review**. Performance evaluation is an aid to planning career development and succession, by attempting to predict the level and type of work the individual will be capable of in the future. It is an important consideration in decisions about promotion, transfer and termination of employment.

Performance evaluation also provides feedback to employees about how they have been performing and what their managers think of them.

4.2 Why have formal appraisal?

Formal appraisal systems support objective, positive, relevant, consistent feedback by managers.

You may argue that managers gather information about the performance of individuals and give feedback on an ongoing basis in the normal course of their work. Why is a formal appraisal system required? What are the benefits?

(a) Formal appraisal, say once every year, helps to provide a **coherent, complete and objective** picture of the performance of the individual since the previous appraisal.

(b) Managers may have a fair idea of the weaknesses of their subordinates, but may not have devoted time and attention to the matter of **improvement and development**. A formal appraisal provides an opportunity to consider training and development.

(c) It is easy for a manager to make a judgement about a subordinate, but formal appraisal makes them think carefully about their opinion. It is not so easy to **justify** an opinion in detail, in writing, or in a face to face interview with the individual.

(d) Unless stimulated to do so, managers rarely give their subordinates adequate **feedback** on their performance.

(e) It can provide a rational basis for deciding rewards. Actual performance by the individual can be compared with agreed targets or standards, and the amount of the reward can be assessed accordingly.

4.3 The process of performance appraisal

The basic requirements of a **formal appraisal system** are: defining what is to be appraised, recording assessments, providing feedback to the individual and making decisions for the future based on the appraisal or assessment that is made.

There are four basic requirements for a formal appraisal system.

(a) The **formulation of targets, standards or behaviour** against which individuals will be assessed.

(b) **Recording assessments.** There should be some way of recording the actual performance of individuals against the required targets or standards. Performance appraisal forms may be used for this purpose. The line manager of the individual may make the assessment, but assessment of the individual by subordinates or colleagues may also be part of the appraisal process.

(c) **Feedback**. There should be formal feedback to the individual about his or her performance. This may be done in an appraisal interview between the individual and a more senior manager (for example, a line manager or someone from the HR department).

(d) **Deciding what to do**. The appraisal process should result in a decision or agreement with the individual about what should now be done. As suggested earlier, this may be a decision about further training or development for the individual, or a decision about how the individual should be rewarded. The appraisal may also be used to assess the individual's abilities and suitability for promotion.

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4.4 Performance appraisal and motivation

The performance appraisal process can provide motivation to individuals to perform well in their work. This is possible only if people perceive that putting more effort into their work will lead to better performance, and that better performance will lead to rewards (more pay, or promotion). (This is the **expectancy theory** of motivation.)

Appraisal systems will not be motivating if individuals cannot see a direct connection between the appraisal system and benefits to themselves. This may mean rewards or promotion, but individuals may also be interested in discussing their training and development needs, which is an important part of the appraisal process.

4.5 What performance is assessed?

Performance appraisal should compare what an individual has achieved with what should be expected from him. This may involve an appraisal of performance at work or an assessment of behaviour and attitudes at work.

(a) **Work performance and achieving targets**. The performance of the individual at work may be compared with targets or standards that were agreed in advance. For senior managers, performance may be measured in terms of revenue earned, keeping costs within budget or making profits for the organisation. For project managers, targets may relate to the achievement of targets for the completion of project work.

(b) **Behaviour and attitudes**. Performance may also be assessed in terms of the way in which the individual has conducted himself at work. Criteria for assessment may include diligence at work (for example, completing tasks on time), an ability to work without excessive supervision, getting on well with other people at work, contribution to team efforts, showing a good attitude, confidence, and so on.

4.6 Who should do the evaluation/appraisal?

It may seem natural that an individual's immediate manager or supervisor should conduct the formal appraisal. The manager or supervisor is directly responsible and accountable for the performance of the subordinates; therefore it may seem natural that the manager or supervisor should be involved in discussing performance with the individuals who work under them.

In many appraisal systems, appraisals are conducted by the immediate supervisor, or the person at the next level of seniority above that.

(a) **Immediate supervisor**. Performance appraisal and evaluation for individuals at lower and middle management levels of the organisation may be conducted by the employee's immediate supervisor, or the supervisor's immediate boss. Some supervisors may not have the necessary skills to conduct a constructive appraisal. Other supervisors may be reluctant to appraise their staff for emotional reasons, because they do not want to criticise them or disappoint them in any way.

(b) **Appraisals by the supervisor's supervisor (two levels higher in the management hierarchy)**. Appraisals that are carried out by the supervisor's own manager may be more successful. Managers who are in a more senior position may be more skilled and experienced in appraisal techniques, and they should not have any emotional reason for not wanting to conduct the appraisals.

(c) **Peers**. Peer review involves the appraisal of individuals by their colleagues. Performance evaluation undertaken by peers may be a reliable method of appraisal because they are familiar with the individual's work from daily interaction. Judgements are also supplied by several people, not just one.

(d) **Immediate subordinates (upward appraisal)**. An organisation may ask for subordinates to make an appraisal of their supervisor/manager. This may provide useful feedback about the

performance of the individual as a leader. The major weakness of this method of appraisal is the fear of reprisal from bosses when the subordinate gives an unfavourable assessment.

(e) **Self-evaluation.** Employees may be required to carry out an assessment of their own performance. This can be a useful part of the overall appraisal process, because the self-appraisal by the interview can be compared with the appraisal by the individual's boss, or peers or subordinates. This can provide a basis for discussion at an appraisal interview.

(f) **360 degree appraisal.** 360 degree appraisal is appraisal that combines appraisals from 'all directions' or all sides – from the individual's supervisor or manager, from peers, subordinates, customers and other people outside the organisation with whom the individual has regular business dealings. The views of all these different people are brought together, and form the basis for an appraisal interview with the individual.

4.7 Barriers to effective appraisal

Problems with appraisal are its implementation in practice and a range of misperceptions about it. New techniques of appraisal aim to monitor effectiveness from a number of perspectives.

Problems in practice

Lockett *(Effective Performance Management)* suggests that barriers to effective appraisal can be identified as follows.

Appraisal barriers	Comment
Appraisal as confrontation	Many people dread appraisals, or use them 'as a sort of show down, a good sorting out or a clearing of the air'. In this kind of climate: • There is likely to be a lack of agreement on performance levels and improvement needs • The feedback may be subjective or exaggerated • The feedback may be negatively delivered • The appraisal may focus on negative aspects, rather than looking forward to potential for improvement and development
Appraisal as judgement	The appraisal 'is seen as a one-sided process in which the manager acts as judge, jury and counsel for the prosecution'. This puts the subordinate on the defensive. Instead, the process of performance management 'needs to be jointly operated in order to retain the commitment and develop the self-awareness of the individual'.
Appraisal as chat	The appraisal is conducted as if it were a friendly chat 'without ... purpose or outcome ... Many managers, embarrassed by the need to give feedback and set stretching targets, reduce the appraisal to a few mumbled "well dones!" and leave the interview with a briefcase of unresolved issues.'
Appraisal as bureaucracy	Appraisal is a form filling exercise, to satisfy the personnel department. Its underlying purpose, improving individual and organisational performance, is forgotten.
Appraisal as unfinished business	Appraisal should be part of a continuing future-focused process of performance management, not a way of 'wrapping up' the past year's performance issues.
Appraisal as annual event	Many targets set at annual appraisal meetings become irrelevant or out of date. Feedback, goal adjustment and improvement planning should be a continuous process.

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4.8 Appraisal and pay

Another problem is the extent to which the appraisal system is related to the **pay and reward system**. Many employees consider that positive appraisals should be rewarded, but there are major drawbacks to this approach.

(a) **Funds available** for pay rises rarely depend on one individual's performance alone – the whole company has to do well.

(b) **Continuous improvement** should perhaps be expected of employees as part of their work and development, not rewarded as extra.

(c) Performance management is about a lot more than pay for **past** performance – it is often **forward looking** with regard to future performance.

4.9 How effective is the appraisal scheme?

Like any organisational programme, the effectiveness and cost-effectiveness of appraisal should be systematically **evaluated**.

Criteria for evaluating appraisal

The appraisal scheme should itself be evaluated (and regularly re-assessed) according to the following general criteria.

Criteria	Comment
Relevance	• Does the system have a useful purpose, relevant to the needs of the organisation and the individual? • Is the purpose clearly expressed and widely understood by all concerned, both the individuals who are being evaluated and the people conducting the appraisal? • Are the appraisal criteria relevant to the purposes of the system?
Fairness	• Is there reasonable standardisation of criteria and objectivity throughout the organisation? • Is the process reasonably fair and objective?
Serious intent	• Are the managers concerned committed to the system, or is it just something the personnel department thrusts upon them? • Who does the interviewing, and are they properly trained in interviewing and assessment techniques? • Are reasonable time and attention given to the interviews, or is it a question of 'getting them over with'? • Is there a genuine demonstrable link between performance and reward or opportunity for development?
Co-operation	• Is the appraisal a participative, problem solving activity, or a tool of management control? • Is the employee given time and encouragement to prepare for the appraisal, so that he can make a constructive contribution? • Does a jointly agreed, concrete conclusion emerge from the process? • Are appraisals held regularly?
Efficiency	• Does the system seem overly time consuming compared to the value of its outcome? • Is it difficult and costly to administer?

Performance management aims to get better results for the organisation and evaluation of individual performance. Appraisal is part of the system of performance management, including goal setting, performance monitoring, feedback and improvement planning.

Appraisal can be used to reward but also to identify potential. It is part of performance management and can be used to establish areas for improvement and training and development needs.

Basic requirements of a formal appraisal system are: defining what is to be appraised, recording assessments, providing feedback to the individual who is evaluated and making decisions about what to do in the future.

A variety of appraisal methods can be used to appraise performance in different ways.

The appraisal interview is an important stage in the process, as it can be used to encourage collaborative problem solving and improvement planning.

Problems with appraisal are its implementation in practice and a range of misperceptions about it.

Like any organisational programme, the effectiveness and cost-effectiveness of appraisal should be systematically evaluated.

EXAM ALERT

Recruitment, training, development and performance evaluation are all likely to be examined regularly.

Chapter Roundup

- Human resource management is concerned with assessing the needs of the organisation for employees (human resources), finding people to meet those needs and getting the best performance from them.
- Personnel management is a term used for the day to day administration of matters relating to employees.
- There are four main elements in HRM: recruitment and selection, performance appraisal, training and development and the rewards system.
- A starting point for the recruitment and selection process is job analysis and competence analysis (role analysis), and the preparation of job descriptions and personal specifications for each job.
- Recruitment is the process of finding applicants for job vacancies.
- Selection is the process of deciding which applicants should be offered the job(s).
- Job vacancies may be advertised internally, externally or both internally and externally.
- Internal recruitment and selection may be part of the organisation's policy for career development for its employees.
- Job application forms are an important document for recruitment and selection: applicants use them to apply for a job and they can be used to screen applicants and eliminate any who seem unsuitable.
- Methods of selecting from applicants include selection tests, work sampling, group selection methods such as appraisal centres and selection interviews. Organisations may use just one or several of these methods.
- Weaknesses in the recruitment and selection process may result in a shortage of applicants for job vacancies, selecting unsuitable candidates, or selected candidates choosing to turn down a job offer.
- The purpose of training and development is to obtain a skilled work force, by raising standards of competence of employees and improve their work performance. It is also concerned with personal development, helping and motivating employees to fulfil their potential.
- Training and education consists of instruction to learn particular skills, such as literacy skills, technical skills and, in some cases, interpersonal skills and problem solving skills.
- Training may be on the job training or formal off the job training, provided either externally by colleges, universities and other training organisations, or internally by the organisation's own trainers.
- Induction training may be given to new recruits, to familiarise them with the organisation and its business.
- Development of individuals includes education and training. It also involves work experience through job rotation, secondments and standing in for absent supervisors, counselling, mentoring and career planning.
- Performance management aims to get better results for the organisation and evaluation of individual performance. Appraisal is part of the system of performance management, including goal setting, performance monitoring, feedback and improvement planning.
- Appraisal can be used to reward but also to identify potential. It is part of performance management and can be used to establish areas for improvement and training and development needs.
- Basic requirements of a formal appraisal system are: defining what is to be appraised, recording assessments, providing feedback to the individual who is evaluated and making decisions about what to do in the future.
- A variety of appraisal methods can be used to appraise performance in different ways.

- The appraisal interview is an important stage in the process, as it can be used to encourage collaborative problem solving and improvement planning.
- Problems with appraisal are its implementation in practice and a range of misperceptions about it.
- Like any organisational programme, the effectiveness and cost-effectiveness of appraisal should be systematically evaluated.

Quick Quiz

1 Put these stages of the recruitment and selection process into the correct order.

(a) Select candidates
(b) Attract potential employees
(c) Identify/define requirements

2 There is a serious risk that interviews fail to predict performance accurately. **True or false?**

3 Suggest a suitable training method for each of the following situations.

(a) A worker is transferred onto a new machine and needs to learn its operation.

(b) An accounts clerk wishes to work towards becoming qualified with the relevant professional body.

(c) An organisation decides that its supervisors would benefit from ideas on participative management and democratic leadership.

(d) A new manager who is about to join the organisation.

4 Which one of the following is **not** a purpose of appraisal?

A To identify performance levels
B To encourage communication between manager and employee
C To assess development needs
D To highlight employees' weaknesses

5 The advantages of self-appraisals are: (tick all that apply)

They save the manager time	☐
They reconcile the goals of the individual and the organisation	☐
They offer increased responsibility to the individual	☐
They are more accurate as people are often the best judge of their own performance	☐

6 The appraisal system may be monitored by reviewing indicative factors such as staff turnover. **True or false?**

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Answers to Quick Quiz

1 1 (c), 2 (b), 3 (a) Identify/define requirements, attract potential employees, select candidates.

2 True. This is due to brevity and artificiality of interview situation combined with the bias and inexperience of interviewers.

3 Training methods for the various workers indicated are as follows.

(a) Worker on a new machine: on the job training, coaching

(b) Accounts clerk working for professional qualification: external course (perhaps evening class or day-release)

(c) Supervisors wishing to benefit from participative management and democratic leadership: internal or external course in leadership skills; however, it is important that monitoring and evaluation takes place to ensure that the results of the course are subsequently applied in practice

(d) New staff: induction training

4 D An appraisal may be used to discuss the weaknesses of an employee, but this is not the purpose of appraisal.

5 The advantages of self-appraisals are:

They save the manager time	☑
They reconcile the goals of the individual and the organisation	☑
They offer increased responsibility to the individual	☑

They are **not** more accurate as people are often **not** the best judge of their own performance.

6 True. If there is a high rate of staff turnover, this suggests that there is a high level dissatisfaction among employees. This may be due to a sense that appraisals are unfair, or it may be a failure of the appraisal system to identify employee dissatisfaction. Either way, the appraisal system must have weaknesses. The appraisal scheme can also be evaluated by asking the individuals who have been appraised and those who carried out the appraisals how they felt about the system.

Answers to Questions

7.1 Recruitment

Choosing the wrong candidate for a job can be expensive, particularly when recruiting individuals for supervisory or management jobs. There is the cost of paying an individual to do a job badly: poor performance has a cost to the organisation as well as the cost of the salary that is paid. A badly selected supervisor or manager will also have a negative impact on the work performance of his subordinates.

The chosen individual may not stay with the organisation long, in which case the organisation will have to incur the cost of finding another person for the job.

It is impossible to have a recruitment and selection procedure that guarantees that a suitable candidate will be selected. However, a robust recruitment process will help to reduce the probability of making a bad selection.

Before a vacancy is advertised, it is important to know what the job consists of. It may be appropriate to conduct a job analysis and competence analysis for the job, so that it is clear what the job consists of and what skills will be required to do the job well. From this it is important to prepare a detailed job description. A job description can be used to provide information to advertise the job vacancy, and also by the selection team as a basis for assessing the potential of the job applicants.

It may also be useful to prepare a personality specification for the job, to guide the selection team about the sort of person who is likely to do the job well.

The method of advertising a job vacancy should be considered, in terms of the likely response using each method. For management jobs or other skilled jobs (or if there is a general labour shortage) it may be appropriate to use the services of a recruitment agency. The objective should be to receive a sufficient number of applications for the job from individuals with the potential to do the job well. A formal advertisement for the job should provide clear information about the nature of the job and the skills or experience that the applicant should have.

It is also important to use a suitable method of identifying suitable candidates. For management positions, the selection process should include an interview of a short list of candidates. Job applications can be used to eliminate unsuitable candidates, and other methods (such as testing) may be used to cut the number of applicants for interview still further.

When interviews are used for selection, a big weakness in the interview system is the limited amount of time that is available. A period of 15 minutes to half an hour is too short to get to know an applicant well enough. It is therefore important that the individuals in the interview team should be skilled interviewers, and that during the interview, most of the time should be taken up with the candidate doing the talking, not the interviewers.

The final selection should be based on all the information obtained about each candidate – from the application form, the interview and the results of any testing.

It may also be appropriate to make the offer of a job to the successful applicant a conditional offer, whereby the performance of the individual is reviewed after a certain number of months in the job and if the individual is found to be unsuitable, they can be dismissed.

7.2 Training

There are several reasons why a large or medium-sized company may be reluctant to train its employees. An important reason is cost. Formal training can be costly. External training involves payment to colleges or other training providers. Training internally uses up the time of experienced employees or staff in a training department. For this reason, the company may decide to rely on on the job training for new employees, with relatively little supervision.

Companies may also be concerned that if they train employees, the employees will leave soon afterwards to join a rival company. This means that the company will have paid for the training of the rival's staff. However, training is only one aspect of human resources strategy and if a company wants to obtain skilled staff, it must reward them sufficiently as well as train them.

A company may also believe that instead of training staff, it can recruit skilled staff in the jobs market, after they have been trained by someone else, perhaps by 'poaching' them from a rival. This will save costs, but will also cause dissatisfaction among the company's existing staff, who are not being given training or career development opportunities.

Companies may also neglect training staff because they do not have a human resources strategy, and have not made plans for the skills that their employees will need in the future.

(a) A failure to provide suitable training to staff means that their competences will not improve, except through work experience; therefore the performance of employees may be much lower than it should be. Over time the company may lose competitiveness against rival companies that do train their staff.

(b) The company may not be able to obtain staff with the skills that are needed to operate the business efficiently or effectively.

(c) There will be only limited career development opportunities for staff, and poor staff morale may result in a high rate of labour turnover.

Labour is a vital resource for companies. A failure to develop this key resource through training would be a major strategic failing by the company.

PART C: PUBLIC SECTOR ORGANISATIONS

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PUBLIC SECTOR ORGANISATIONS

So far in this Study Manual, the focus has been on organisation and management in business organisations, particularly large companies. Business organisations are privately owned and their objective is to provide wealth for their owners.

There are many organisations that are not privately owned, but instead are owned by the state. These may be called government organisations or state owned organisations. Although most of the general principles of organisation and management apply to state owned organisations as well as to business organisations, there are also important differences. This is due to the fact that the main objective of state owned organisations is not to make a profit for its owners, but to provide a service to the community. Some organisations are privately owned but also do not have a profit making objective. These are community non profit making organisations, which also have some differences in the nature of their organisation structure and management compared with profit making business organisations.

chapter 8

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2 Objectives and key features of public sector organisations	9B
3 Community non-profit organisations	9C

LEARNING OBJECTIVES

- Explain what is meant by a public sector organisation (9A)
- Describe the objectives of a public sector organisation (9B)
- Identify the features, structure, and issues likely to arise in a community non-profit organisation (9C)

1 Public sector organisations

The public sector refers to organisations that are owned by the government. Organisations in the public sector are different in some ways from organisations in the private sector.

1.1 The private and public sectors

PRIVATE SECTOR: organisations not owned or run by central or local government, or government agencies.

PUBLIC SECTOR: organisations owned or run by central or local government or government agencies.

Many private sector organisations are business organisations whose main objective is to provide a financial return for their owners, by making profits.

The **public sector** comprises all organisations owned and run by the government and local government. Here are some examples.

- The armed forces
- Government departments
- Most schools and universities

The organisations in the public sector vary between countries.

The main objective of public sector organisations is to provide a benefit or service to the community. Some may also be expected to make a profit, but this is not always the case.

In Zambia, public sector organisations include local government undertakings financed by central government through taxes and grants and others financed by funds voted directly by Parliament.

(a) Organisations such as Zambia Electricity Corporation (ZESCO), and Zambia State Insurance Corporation (ZSIC) are owned by the central government on behalf of the citizenry as parastatal organisations.

(b) Other organisations owned and controlled by the Zambian government include Zambia Development Agency, Patents and Company Registration Agency, and Roads Development Agency, to mention a few.

('Parastatal' organisations are organisations that are owned partly or wholly by the state. They are not a government department but a separate organisation such as a corporation. 'Para' means 'close to' or 'near to', so a parastatal corporation is one that is close to the government through ownership, and in some indirect way may be under the control of government.)

The public sector consists of organisations that are owned or funded by the state.

2 Objectives and key features of public sector organisations

Public sector organisations have certain characteristics which make them distinguishable from private sector organisations.

2.1 Characteristics of public sector organisations

The **primary objective** of a public sector organisation is not (normally) to make a profit, public sector organisations have the following characteristics.

(a) **Accountability**. Their senior management is accountable to the government and to Parliament.

(b) **Funding**. The public sector can obtain funds in three main ways.

  (i) Raising taxes
  (ii) Making charges for their goods or services
  (iii) Borrowing

(c) **Limited resources**. Despite the potentially huge demand for public services, there are constraints on government expenditure. Resources are limited and the demand for the public service (for example, education) cannot always be met in full.

Advantages of public sector organisations

When comparing public sector organisations with private sector business organisations, public sector organisations have some advantages.

(a) **Fairness**. The public sector can ensure that everyone has access to basic services, such as health services and education.

(b) **Filling the gaps left by the private sector**. There are some services that are not provided by the private sector, and must be provided by the state. These include the armed forces and police service.

(c) **Public interest**. It may be in the public interest for the government to wholly or partly own an organisation in a key industry. This is because the government may be well placed to provide finance to develop a major industry, or may wish to ensure government control over a vital industry. Government ownership may be seen as the best way of developing the industry and therefore growing the national economy.

Disadvantages of public sector organisations

(a) **Cost**. Public sector organisations may be very inefficient and waste government money.

(b) **Accountability**. The leaders of public sector organisations may not be sufficiently accountable for their performance.

(c) **Interference**. Politicians may seek to control the important decisions by the organisation. These politicians may not be familiar with the operation of the business, so their influence may adversely affect the decision making process. Pressures to get elected may persuade the government to postpone necessary but unpopular decisions.

2.2 Public sector organisations in Zambia

Public sector organisations may be statutory bodies, parastatal organisations, government departments or boards.

Statutory bodies

A statutory body is an organisation created through an Act of Parliament which provides for the establishment of a new organisation. Most statutory bodies in Zambia are regulatory in nature: they are established to regulate an aspect of activity.

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They include the Competition and Consumer Protection Commission, Zambia Wildlife Authority, Pensions and Insurance Authority, Zambia Information and Communications Technology Authority, Energy Regulations Board (ERB), and Roads Development Agency.

Statutory bodies were established to promote or regulate and monitor some socially and politically desirable activities

(a) The Competition and Consumer Protection Commission, for instance, was established to regulate anti-competitive market behaviour by dominant firms in their market.

(b) The main concern of the ERB is that energy services reach the target market in the form prescribed and that customers are not exploited.

The responsible Minister appoints the Board of Directors for the statutory bodies, generally for a period of three years. There is therefore close political influence over the leadership of the statutory bodies.

Statutory bodies are financed through statutory fees that are charged for the services they provide and some are funded directly by government.

Parastatal or state-owned organisations

PARASTATAL ORGANISATIONS are public corporations owned or partly-owned by the state.

Parastatal organisations include corporations such as ZSIC and ZESCO.

They have a profit motive, and are expected to make a profit. However, their profit-making objective should be within constraints or limits that are set by the government. The main purpose of a parastatal is to provide members of the public with goods and services at reasonable prices.

They obtained their capital from the central government in the form of grants, and they may also borrow from financial institutions.

Parastatal companies, like statutory bodies, are subject to investigation by the Parliamentary committees. Political influence is therefore strong.

Government departments

Central government constitutes the civil service of government. It administers the country in the interests of the general public. It is organised into Ministries and Departments. Each Ministry has a professional management structure, but it also has a Minister of the government as its head. The management team is headed by a Permanent Secretary and political leadership is provided by the Cabinet Minister, who supervises the Permanent Secretary.

Ministries include the Ministries of Foreign Affairs, Home Affairs, Agriculture and Livestock, Finance and National Planning.

Each ministry is divided into Departments. Examples of Departments are the Human Resource Management and Administration Department, Department of Tourism, Environment and Natural Resources Management Department and Forestry Department and so on. The nature of the Departments within each Ministry depends on the type of Ministry and the areas of government for which it is responsible.

The government is the country's biggest employer and the biggest buyer of goods and services.

Boards

Boards are public institutions established by the government outside the structure of government Ministries and Departments. They are owned and funded by the government and the government appoints a board of managers or trustees to manage the affairs of each institution.

(a) Some of the boards are Trusts, such as the Hotel Training and the Tourism Institute Trust.

(b) Other Boards are the Zambia Public Procurement Authority (formerly the Zambia National Tender Board), and the Zambia National Tourist Board.

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The government may establish a board to operate activities which may not be sufficiently profitable to attract investment by private sector companies. For example, the Zambia Public Procurement Authority has responsibility for procurement (purchase of goods and services) by the public sector, to obtain value for money.

The government has also established management training institutions for training of its civil servants and provision of management consultancy services. The National Institute for Public Administration (NIPA) and Management Services Board were originally established as part of the Cabinet Office to provide the services alluded to above.

Non-governmental organisations

A **NON-GOVERNMENTAL ORGANISATION (NGO)** is an independent voluntary association of people acting together for some common purpose (other than achieving government office or making money).

NGOs are bodies which are not directly linked with national government. The description 'NGO' generally applies to groups whose primary aim is not a commercial one, but within this the term is applied to a diverse range of activities, aimed at promoting social, political or environmental change. Some NGOs may be funded by the government.

In Zambia, some NGOs or civil society organisations have been established to promote issues of public interest. Some of the NGOs in Zambia are in the political field, or deal with environmental, health or gender issues, and their mandate largely is to promote a public cause.

NGOs include the Non-Governmental Organisation Coordinating Committee (NGOCC), Women for Change, Operation Young Vote, AVAP, OASIS forum, and Afronet.

2.3 The objectives and characteristics of public corporations

In Zambia many former parastatals have now been privatised, and are part of the private sector. Those parastatals that remain have the following objectives and characteristics:

(a) Their **prime objective** is to look after the interests of the public, although commercialisation is now an objective too.

(b) **Commercialisation**. For the remaining parastatals in Zambia, commercialisation was the alternative to privatisation (the sale of the corporation to private owners). Public Corporations such as ZESCO, ZAMTEL and ZSIC now focus on commercialisation of their operations, adopting strict commercial principles in the management of the organisation. There has been a shift in focus. Instead of providing a public good/service without consideration for profit, ZESCO and Zambia State Insurance Corporation (ZSIC) as commercialised entities, focus on profitability as well. Instead of being privatised, ZESCO and ZSIC are commercialised state owned organisations, providing customer service and customer satisfaction at a profit. As a state owned organisation they must also fulfil government interests in their business activities.

(c) **Accountability**. The Board of directors of public institutions should be accountable to their shareholders, the people of Zambia. In their annual report as part of full disclosure, these organisations should state their functions and report on the results of their operations.

(d) **Transparency**. Transparency goes side by side with accountability. When an organisation is public, it should operate in the most transparent manner possible. There should be full disclosure of all financial affairs of the company, earnings of directors, compliance with good corporate governance principles, regular Board meetings in accordance with the law. Transparency is one of the key performance indicators for good corporate governance of public corporations.

(e) **Decentralisation**. Decentralisation tends to be easier to implement in private sector companies than it is in public sector organisations, where there is greater demand for accountability of operations, regularity of procedures and uniformity of treatment.

(f) **Funding**. Funding of public sector corporations is generally by the government. The government is the main shareholder in public corporations and always want to control these institutions, hence the appointment of the Board of Directors by government. Public corporations can borrow money from financial institutions other than the government.

Public sector organisations

QUESTION

In what ways do public sector organisations differ from public limited companies?

Public sector organisations are accountable to government and rely on government for most or all of their funding; consequently most of them operate with limited resources.

Unlike businesses in the private sector, the prime objective of public sector organisations is to provide benefits to the public rather than make a profit.

Public sector organisations in Zambia consist of statutory bodies, parastatals, government departments and boards.

Parastatals are required to operate commercially and make a profit, as well as provide benefits to the public.

3 Community non-profit organisations

Most community-based **non-profit organisations** focus more on the provision of services to the public for the good of the community.

In community non-profit organisations the emphasis is on value, the use of funds and the cost effectiveness of operations. Community non profit organisations are financed through membership contributions and some organisations may also receive donations from local and foreign sources. Many are registered as non profit making organisations.

An example would be an organisation that is registered as a nonprofit making organisation, established to provide programmes to improve the economic position of a local community, reduce the spread of HIV/AIDS and try to empower the community to become self-reliant.

(a) **Fund allocations**. Community non-profit organisations do not exist to make a profit, although they may earn some income from their activities. They have to decide how to use the funds they receive.

(b) **Cost effectiveness**. The operations of a community non-profit organisation are similar to the workings of a co-operative society at the community level. The focus for community non-profit organisations is on cost reduction and overall cost reduction as the budgets are generally small. A 'no-frills' culture is normally adopted so that every Kwacha raised is used for the public cause that is being pursued.

(c) **Characteristic features**. The characteristic feature of non-profit community based organisations is the level of informality in their operations. It is an organisation of members, meaning that the initial capital is raised through members' contributions. Such organisations tend to be very democratic and led by elected officials, who may also operate as a management (depending on their capitalisation).

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(d) **Goals and values**. The main goal of the community non-profit organisations is to serve the public good and address whatever public cause the community may want it to focus on. Organisations in this category include small scale farmers' associations, organisations to fight against HIV and AIDS, and organisations on gender equality. Others, such as movement against corruption and church organisations, also fall into this category. Issues of integrity, transparency, accountability in use of donated funds, good corporate governance tend to be very high on their agendas in their operations.

(e) **Administrative structure**. Community non-profit organisations do not have elaborate structures for administration and management. Administrative structures are generally informal and simple.

Community non profit making organisations are established to provide services to the community and do not seek to make profit.

Community non profit making organisations may be funded by capital from members, or by donations.

Community non profit making organisations tend to be democratic organisations with elected officials, who may also act as managers of the organisation.

EXAM ALERT

You must be able to define what a public sector organisation is, and what the objectives of a public sector organisation are. Ensuring that you take the time to gain a good understanding of non-profit organisations is strongly advised.

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ZiCA
Zambia Institute of Chartered Accountants

ZICA QUALIFICATION • DIPLOMA IN ACCOUNTING

Paper D7
Principles of Management

About ZICA

ZICA was established under the Accountants Act, 1982 (CAP) 390, as repealed and replaced by the Accountants Act No. 13 of 2008. Its overall mandate is to regulate the practice and education of Accountants in Zambia.

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